



# Feasibility Study

Proposed Hotel in Delta County

Prepared by: Better City

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## Executive Summary

This report assesses the feasibility of a hotel development in the City of Delta Colorado. The proposed site is at the north end of the downtown corridor, immediately east of Main Street and South of the Gunnison River. This site provides excellent access and visibility from Highway 50, the primary corridor into and out of the City. The site also has good visibility from Route 92.

Currently there are no upper-mid tier hotels in Delta. There are three nationally branded hotels of lesser quality that are considered the primary competition for this development. These hotels are a Quality Inn, a Days Inn, and a Rodeway Inn. Nearby Montrose has two upper-mid tier hotels that are considered part of the secondary competition for this hotel. These hotels are a Holiday Inn Express and a Hampton Inn and Suites. This analysis recommends pursuing an upper-mid tier brand that is not currently represented in the Region, namely Fairfield Inn and Suites by Marriott.

Demand indicators for the region, including population growth, visitation statistics, and economic growth indicate a slow but steady growth in demand for rooms in the area. Additionally, adding a nationally branded hotel not currently in the region is expected to take advantage of latent demand in the market. Combined, these factors are expected to increase room demand by 2% per year over the next five years. These estimates are based upon current conditions. Any further developments in the area that attract visitors to the area would further bol-

ster demand. The development of a new hotel would initially reduce occupancy rates in the region due to the additional supply of rooms. However, demand growth is expected to return occupancy to its current level market wide after three years.

The subject property is expected to achieve higher than average occupancy for the market given its newness, unique position in Delta, and brand affiliation. The project is expected to achieve 52% occupancy in year one and 62% occupancy at stabilization in year five. Given current market rates, the property is expected to achieve an average daily rate (ADR) of between \$99 and \$105 and revenue per available room (RevPAR) between \$51 and \$70. This is higher than the market RevPAR of \$45 for hotels across all tiers.

Estimated construction costs for the project are between \$8.9M \$9.2M with the lower cost reflecting an incorporated conference center and the higher cost reflecting a detached conference center. This includes an estimated land price of \$125,000 per acre based upon comparable current listings and assessed values, estimated hotel construction costs of \$70,000 per room and conference center construction costs between \$195 and \$205 per square foot based upon comparable hotel developments.

It is anticipated that financing for this project would be provided by a combination of equity contribution, SBA debt and conventional debt. Equity requirements for such projects are typically 35%, yielding necessary investment between \$3.1M and \$3.2M. The remaining cost would be split equally between SBA

and bank loans. Assuming a 5.5% interest rate over 20 years would result in a debt service payment between \$482,739 and \$499,559 per year.

Based upon the occupancy and ADR estimates established in this report, it is anticipated that the hotel would see revenues between \$1.6M and \$1.7M in its first year, increasing annually thereafter to between \$2.1M and \$2.2M in year 5. Operating expenses for the hotel are expected to be between 1.5M and \$1.6M over this period yielding an operating profit. This profit is enough to cover debt service expenses in all but year 1 for the best case scenario and all but years 1 and 2 in the other scenarios. Although positive, the return on investment for this project is not enough to cover typical hotel developers' cost of capital, which can range from 10% to 20%. In order to attract a typical developer to this project, incentives will be required. As the conference center provides public benefits to the region, it is the portion of the project that should be the target of these incentives.

If these new tax revenues that would not exist but for the project were put back into the project to fund the conference center capital costs, which range from \$830,752 for an incorporated center to \$1,202,959 for a detached center, it would achieve a return on investment between 8.38% and 12.15% by year 5. This level of return is much more likely to entice a developer to take on the significant risk of developing a new hotel and conference center in Delta.

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## Area Summary

### Natural Attractions

The subject site is located in the City of Delta in Delta County, Colorado. Delta County, situated in the central-western area of the State, has multiple National Parks and Forests nearby. Delta City can be accessed by Highway 50, which stretches from Grand Junction along Highway 70 to Garden City in Kansas.

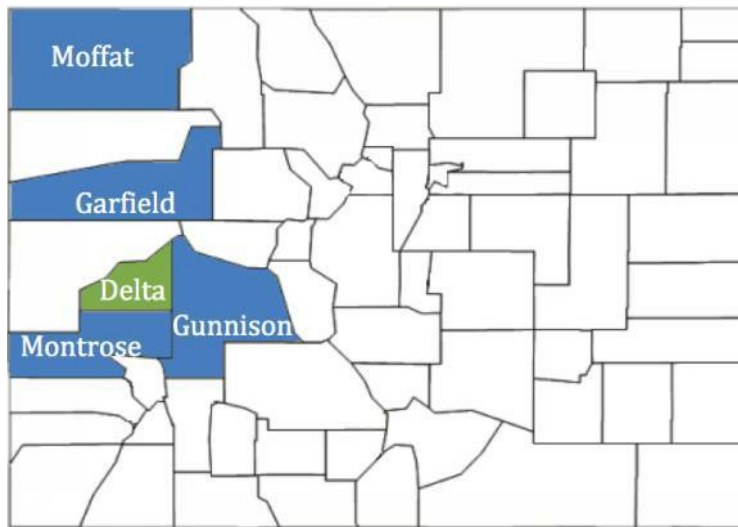


Figure 1: Colorado Counties

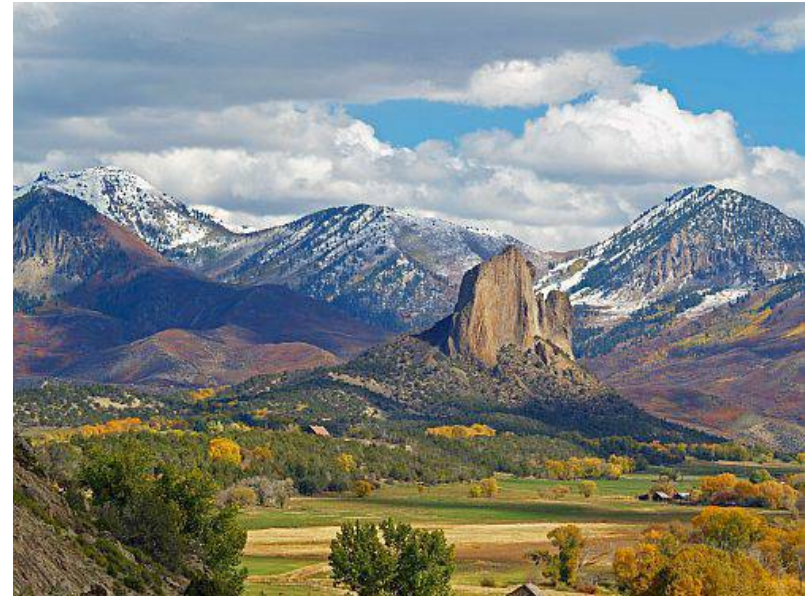


Image 1: Needle Point in Crawford City

The County is home to beautiful mountains and scenic places. Needle Rock, located east of Crawford City, is a fascinating geological rock feature that abruptly rises 1,000 feet out of the ground. The Gunnison Gorge National Conservation Area is located on the southern border of the County. This beautiful gorge features canyons, waterfalls, trails and a viewpoint that looks into the Black Canyon of the Gunnison National Park. Beautiful red rock formations next to the Gunnison River provide an attractive vista and wildlife there is plentiful, including big game animals such as deer, elk and bears.

Delta City is strategically located at the confluence of the Uncompahgre and Gunnison Rivers. In addition to the rivers, the surrounding area has much to offer including: the Grand Mesa

National Forest, two National Conservation Areas, trails, campsites, fishing/hunting areas, beautiful scenery and many more possibilities for outdoor recreation. All of these attractions are an asset for the tourism industry as they serve to attract people to the area.

## Demographics

The following figures represent the population changes that have occurred between the years 2009 and 2013. As can be seen, both Delta County and Delta City have sustained lower population growth rates over this period than the State and the Nation.

POPULATION GROWTH						
Location	2009	2010	2011	2012	2013	Growth Rate
Delta County	30,353	30,533	30,666	30,710	30,659	0.20%
Delta City	8,708	8,779	8,837	8,845	8,843	0.31%
Colorado (000s)	4,843	4,887	4,966	5,043	5,119	1.12%
U.S. (000s)	301,462	303,965	306,604	309,139	311,537	0.66%

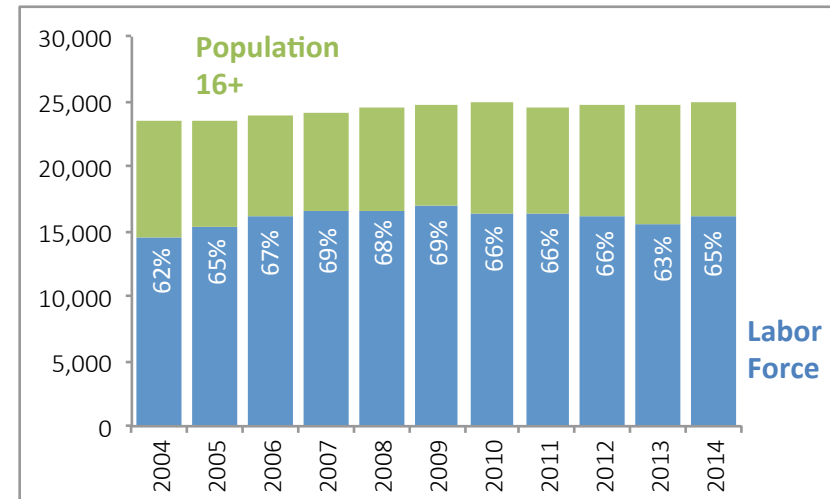
Table 1: Population Growth Between 2009 & 2013

The median age in the County increased from 42.7 in 2000 to 46.9 in 2013 and is significantly higher than the state average of 36.8.

## Labor Force

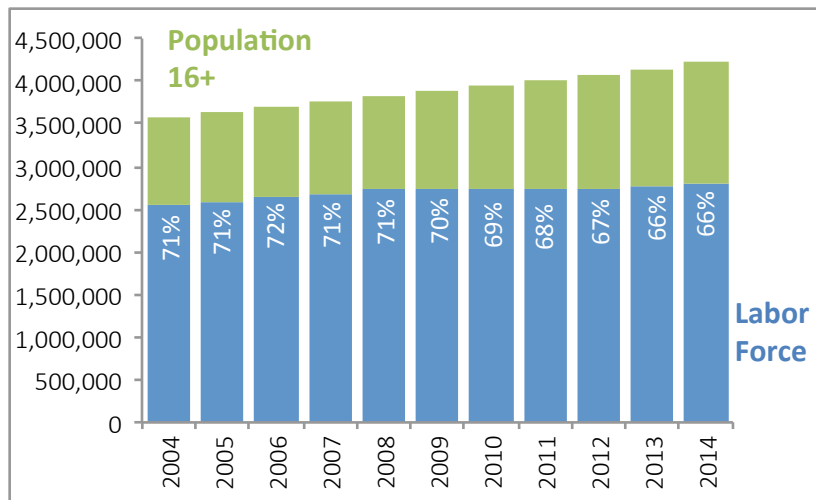
The County labor force consists of those individuals (typically 16 or older) who are either employed or actively seeking employment. As shown in Figure 2 below, the portion of the County population in the labor force is an estimated 65% in 2014. This is higher than the 10 year low of 62% in 2004, but lower than the high of 69% in 2009. Delta County labor force

participation is on par with statewide averages (shown in Figure 3.)



Source: DOLA, BLS

Figure 2: Delta County Labor Force Participation 2010-2013



Source: DOLA, BLS

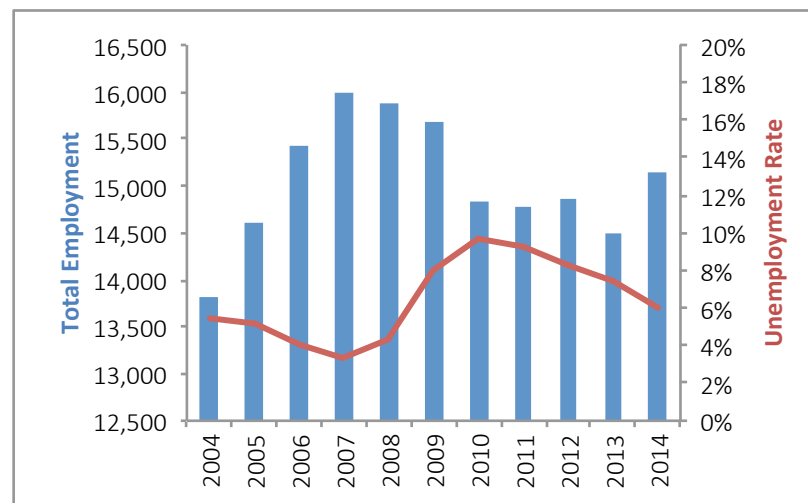
Figure 3: Colorado Labor Force Participation 2010-2013

## Employment

While the size and makeup of the labor force can illustrate the potential of an economy, indicators such as the number of people employed and the unemployment rate illustrate the current state of an economy. Delta saw a significant decline in the number of people employed from 15,984 in 2007 to an estimated 14,487 in 2013, as depicted in Figure 4. There was an uptick in employment of almost 700 individuals between 2013 and 2014 according to the Bureau of Labor Statistics.

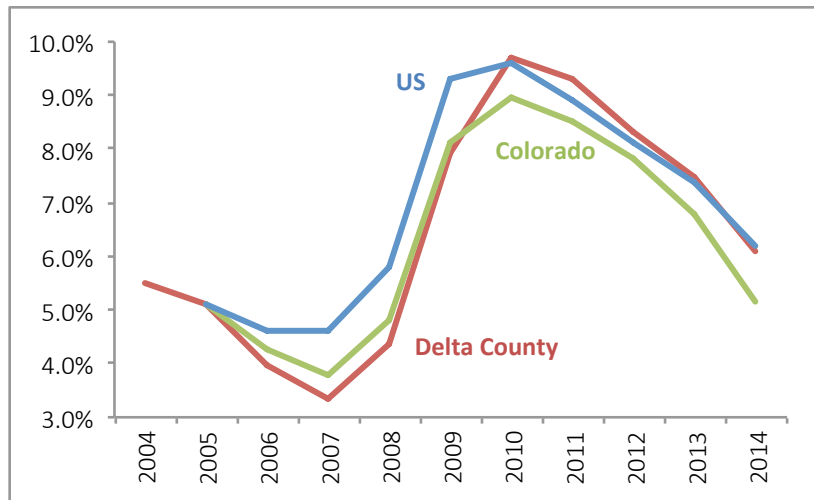
There was a sharp increase in the unemployment rate between 2007 and 2010, but since that time the unemployment rate has slowly declined. In contrast to the rest of the State, which saw steady employment growth from 2010 to the present, the County has had a much slower recovery from the recent recession. The unemployment level in the County has been higher

than the state average since 2010 as shown in Figure 5. Changes in the unemployment level have moved in parallel with state and national trends.



Source: BLS

Figure 4: Delta County Employment 2004-2014

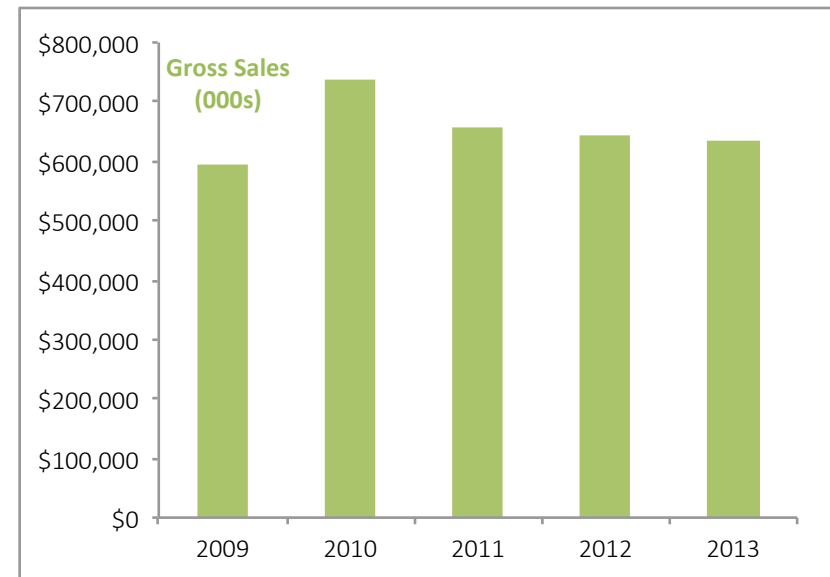


Source: BLS

Figure 5: Unemployment 2004-2014

## Revenue

Figure 6 shows gross sales for all industries in the County according to Colorado Department of Revenue data. Revenues for local businesses declined slightly between 2010 and 2011 and have remained flat since.



Source: Colorado Department of Revenue

Figure 6: Delta County Gross Sales 2009-2013

## Area Map



Map 1: Delta County

## Neighborhood Information

### Overview

The subject neighborhood is the community of Delta City. Delta City is the county seat and commercial hub of Delta County. Delta City is the most populated community in the County with a 2013 population of 8,843 persons. Although the population growth rate has been relatively low, Delta City's location is within 45 minutes drive time of Grand Junction's relatively large market.



Image 2: Main Street, Delta City

### Street Orientation

A proposed site has been identified for the location of a national chain hotel in Delta City. The site is located at the northern end of the downtown area near the intersection of U.S. Highway 50 (Main St.) and Colorado Route 92. Due to the site's location at the intersection of the two most traveled roads in the City, it will maintain substantial visibility along both roads. This creates a competitive advantage for the site in respect to the locations of most existing hotels within the city.



### Boundaries & Accessibility

The boundaries of the subject neighborhood are considered to be the city limits of Delta City. The community is accessed primarily from Highways 50 and 92.

### Jurisdiction & Build-Up

The neighborhood is within the jurisdiction of Delta City. The city government provides services and controls development within its boundaries. The immediate area of the subject is approximately 60 to 70 percent built-up.

### Roadways & Accessibility

Highway 50 (known as Main St. within the city limits) passes through Delta City in a north/south direction and continues northwest and east outside of the city boundaries. Highway 50 is a major corridor that passes through the lower midsection of Colorado. The two cities that lie closest to Delta City located along Highway 50 are Grand Junction (45 minutes Northwest of Delta) and Olathe (15 minutes south of Delta.) Highway 92 (which intersects with Highway 50 at the proposed site) begins at Delta City and runs in an east/west direction towards the city of Hotchkiss, then travels south where it meets Highway 50 again near the city of Gunnison.

### Physical Features

The Grand Mesa National Forest is located to the North of Delta City. The Dominguez-Escalante National Conservation and the Gunnison Gorge National Conservation areas are southwest and southeast of Delta. These areas feature higher elevations, lakes, and plateaus. The topography of the neighborhood is relatively flat within the downtown area. However, due to

the mountains, mesas and plateaus that surround the city, the elevation gradually increases in all directions outside the city limits of Delta. The natural drainage of the site is towards the West along the Gunnison River, which flows in from the east along the northern region of the City.

### Adequacy of Utilities

All utilities are available in the neighborhood. Listed below is the governing entity or supplier for each utility.

Utility	Responsible Entity
Water	<i>Municipal</i>
Sewer	<i>Municipal</i>
Trash	<i>Municipal</i>
Electricity	<i>(DMEA) Delta-Montrose Electric Association</i>
Natural Gas	<i>Source Gas</i>
Telephone Service	<i>Century Link</i>

Table 2: Utilities & their Responsible Entities

### Detrimental Influences

The community of Delta City is relatively limited in size and serviceable amenities. The demand in the area is mostly restricted to the demand of the local community and through traffic. Although population growth in the area is positive, the community is still considered a rural area with limited commercial retail amenities.

### Summary

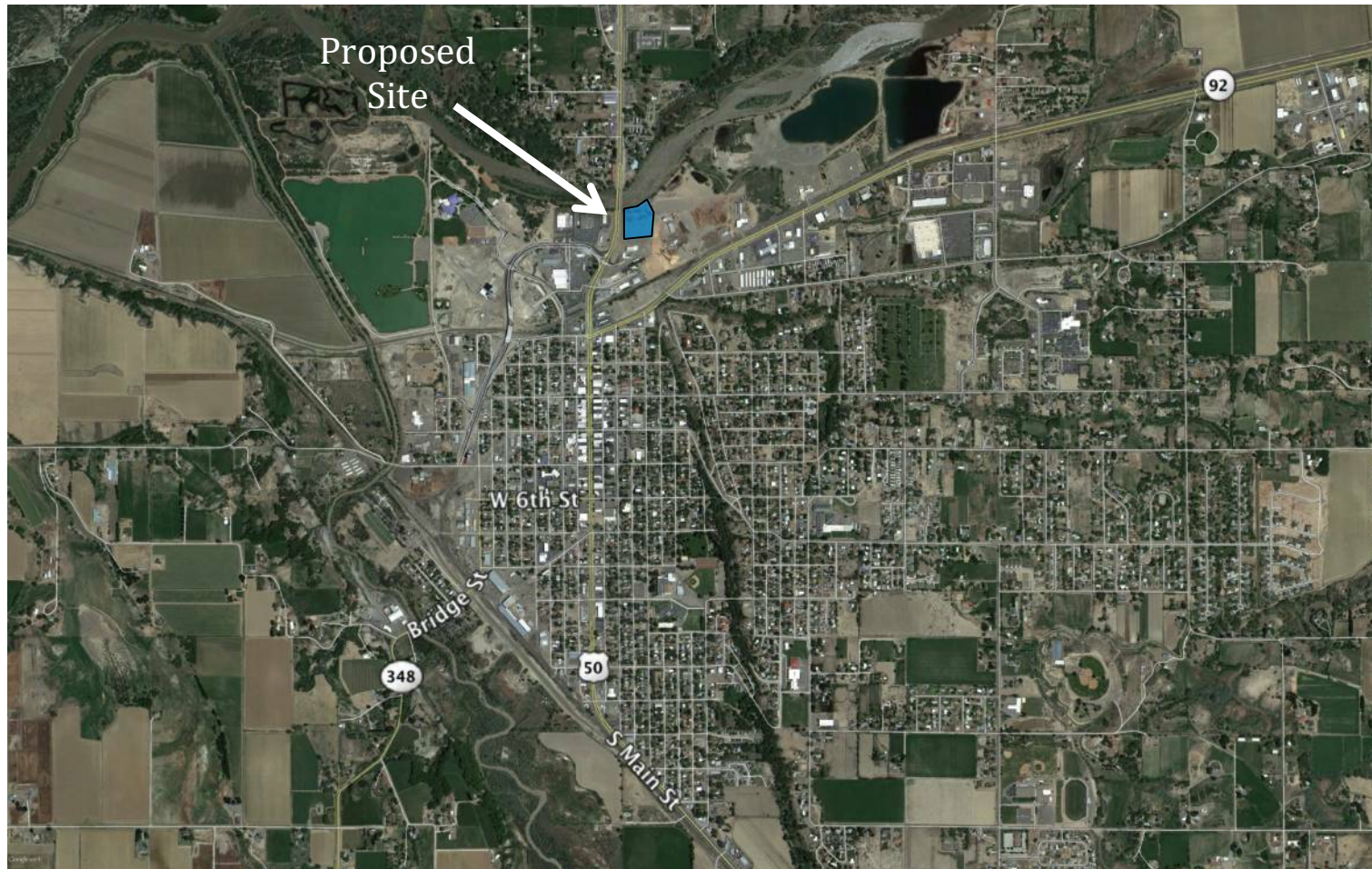
The subject neighborhood is considered to be the community of Delta City, Colorado. The neighborhood contains a small mixture of commercial and retail uses and a residential area that has recently experienced slow population growth. Overall,

the subject neighborhood could be considered a suitable location for a destination commercial enterprise given its proximity to Highway 50 and Grand Junction City.

### Site Description

The subject site for the proposed development at the north end of the downtown area is highlighted in Map 2. The proximity and access to the Gunnison River, the site's location on Main St. and its visibility from highways 50 and 92 were all considered essential factors in the selection of the site location.

## Site Map



Map 2: Delta City Neighborhood & the Proposed Hotel Site

### Location

The proposed subject site is immediately east of Main Street and south of the Gunnison River.

### Shape, Size and Frontage

The site shape is a modified rectangle. The configuration of the site does not appear to inhibit development.

The parcel containing the site is approximately 9.4 acres. Between 2.5 and 3.0 acres of this parcel would be needed for a hotel and conference center development. The site contains significant frontage along Main St. (Highway 50) as well as good visibility along Highway 92 as it enters the town east of the proposed site. The current owner of the parcel is Gunnison River Group LLC.

### Topography and Drainage

The elevation of the Highway, West of the site, is approximately five feet above that of the proposed site. Currently, this slope between the site and the Highway is barren ground. The parcel area of the proposed site is relatively flat in all four quadrants, apart from a slight slope at the riverbank at the northern end of the parcel. The water flow of the Gunnison River varies by month and season. Thus, the height of the slope between the level ground and the river's edge varies as well.

Natural drainage is in a general northern direction towards the Gunnison River.

### Present Improvements

The present site is considered vacant land that has been leveled and improved for potential use or development.

### Surrounding Improvements

U.S. Tractor and Harvest Inc. currently has three structures on the southern quadrant of the parcel. There are a number of additional office/warehouse structures south of the site along Ute Road. There is a sawmill east of the site, and several other industrial businesses are located east of the proposed site including Amerigas, Doyle Petroleum and Doughtry Bearings and Supply.

Multiple retail sites exist West of the proposed site including City Market, McDonald's, Delta Hardware and Big O Tires. The Quality Inn hotel is located approximately .25 miles west of the site on Gunnison River Drive.

### Street Improvements

Main Street features two lanes for each direction of travel. A center turning median divides the street. The western (North-bound traffic) side of Main Street features new curb and sidewalk. The sidewalk fronts the proposed site parcel. Unimproved ground sits between the site's border and the sidewalk along Main Street.

### Daily Vehicular Traffic

The traffic figures applicable to the subject site are given below. The figures were obtained from the Colorado Department of Transportation (CDOT).

AVERAGE DAILY TRAFFIC COUNTS 5 YEAR HISTORY	
HWY 50 @ Gunnison River Bridge (2009)	15,741
HWY 50 @ Gunnison River Bridge (2013)	17,053
Percentage Change Growth	8.34%

Table 3: Average Daily Traffic Counts at Gunnison River Bridge

## Soil

No soil reports were provided; however, the existence of other commercial improvements in the neighborhood suggests that the soil is suitable to support commercial structures in the immediate vicinity.

## Utilities

Water, sewer, electricity, natural gas and telephone services are available to the subject property. The responsible entities for utility services are outlined in the Neighborhood Data section of the report.

## Easements and Right-of-Ways

Typical public utility easements exist on the site's borders. The indicated conclusions are based on the assumptions that there are no hidden or unapparent conditions of the property or immediate environment that would render the property more or less valuable.

## Access and Visibility

Access is via Main Street (Highway 50).

The site has excellent visibility for traffic traveling both north and south on Main Street. The site also has good visibility for traffic traveling west towards Main Street on Highway 92.



## Conclusions

The subject site is within the Delta City limits in the northern region outside the downtown area where Gunnison River Drive meets Main Street. The site has excellent visibility for traffic traveling both North and South along Main Street (Highway 50).

## Site Photos



Image 3: View of the Subject Site looking east from Highway 50 towards the River Access Point



Image 4: View of the Subject Site Looking Southeast



Image 6: View of Subject Site Looking Northeast



Image 5: View of the Subject Site Looking East



Image 7: View of the Existing U.S. Tractor Store at the South End of the Subject Site

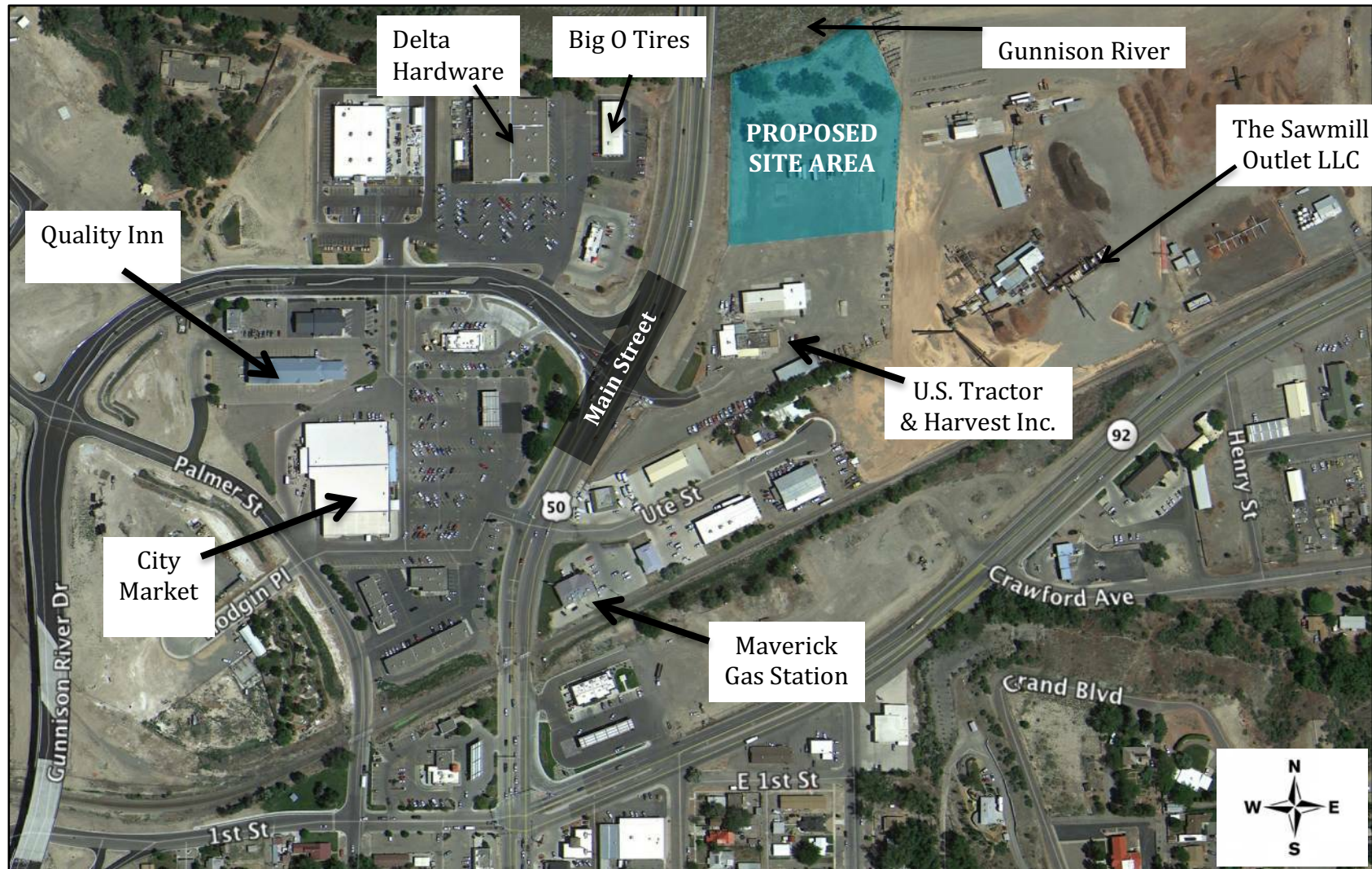


Image 8: View of the Retail Shopping Area West of the Subject Site



Image 9: View of the Subject Site Looking Northeast from Gunnison River Drive

## Proposed Site Map



Map 3: View of the Proposed Site and the Surrounding Streets/Amenities

## Description of Proposed Improvements

Preliminary plans have not been concluded relative to the size of hotel, rate tier or franchise affiliation. As will be detailed later in the report the consultants are of the opinion that the proposed hotel be at least a limited service facility that competes in the mid to upper-mid range rate tiers. This level of service is likely to appeal to the largest portion of travelers in the area. A higher tiered hotel is also a possibility if a franchisor approves of such a hotel in this market. An additional option is the development of an extended stay hotel. These opinions are based on the consultant's knowledge of the market and the factors associated with demand in the area.

It is also the opinion of the consultants that the facility should be associated with a nationally recognized franchise affiliation to assist in providing market awareness to seasonal travelers visiting the area. The proper selection of a franchise affiliation is paramount to the overall success of a lodging development. In selecting a franchise it must be noted that there are distinguishing differences between all franchises.

## Franchise Affiliation

A total of three franchise-affiliated properties currently exist within the Delta City limits. Two of these properties, Quality Inn & Days Inn, are located along Main Street in the downtown area. The third property, Rodeway Inn, is located southwest of the downtown area along Highway 92. Both Quality Inn & Rodeway Inn are owned and operated by Choice Hotels International. The parent company of Days Inn is Wyndham Hotel Group.

Montrose City is located approximately 22 miles south of Delta

City. Montrose features 6 franchise-affiliated properties. Grand Junction, located along Interstate 70, is considered to be a major economic hub in the area. Grand Junction currently features 24 franchise-affiliated hotels. However, Grand Junction is located 40 miles (45 minutes driving) from Delta City. The table below summarizes the franchise properties located in and within 25 miles of Delta City.

FRANCHISE-AFFILIATED PROPERTIES IN THE DELTA CITY AREA			
City	Hotel Name	Parent Group	Distance from Site (Miles)
Delta	Quality Inn	Choice Hotels	0.2
Delta	Days Inn	Wyndham Worldwide	1.5
Delta	Rodeway Inn	Choice Hotels	3.0
Montrose	Hampton Inn	Hilton Worldwide	21.0
Montrose	Baymont Inn	Wyndham Worldwide	23.0
Montrose	Super 8	Wyndham Worldwide	23.0
Montrose	Days Inn	Wyndham Worldwide	23.3
Montrose	Holiday Inn	Intercontinental Hotels Group	23.2
Montrose	Quality Inn	Choice Hotels	24.2

Table 4: Hotel Franchises in the Delta Area

It is the opinion of the consultants that it would be best to utilize a franchise affiliation that would not be in direct competition with the current franchise-affiliated properties in the nearby communities. Marriott International offers an affiliation opportunity for a limited service hotel that is not currently in the region. A second preference for a limited service hotel should be given to affiliations with Hilton Worldwide or Intercontinental Hotels Group given their robust reservation systems. Each of these three groups should be strongly considered for development to the area as they represent some of the most widely recognized hospitality brands in the industry. If an extended stay hotel is pursued, brand affiliation with any of the three brands mentioned above is suitable as there are no

extended stay hotels in the area.

Respective highlights for the various limited service franchise selections within Hilton, Marriott and Intercontinental are presented below.

#### Fairfield Inn & Suites by Marriott

Fairfield Inn and Suites by Marriott is designed for the value-conscious, guest for a typical stay of 1 to 2 nights. The brand delivers a standard hotel room with some limited options on upgrades and services.



According to Marriott, the typical Fairfield Inn and Suites Guest is looking for the following:

- Simple, basic, no-frills experience.
- Positive experience in a travel world that is unpredictable, inconsistent, stressful and lonely.
- Highly focused, and not looking for the hotel to provide services attainable in the community.

#### Hampton Inn & Suites

Originally started as a division of Holiday Inn, Hampton Inn was acquired as a brand by Hilton Hotels in



1999 and has quickly become one of the largest and most recognized lodging brands in the industry with nearly 2,000 hotels worldwide. Hampton has won consecutive Entrepreneurial Awards in 2010 and 2011, and 2013 as the best Franchise available. The Hampton Inn is considered a limited service facility geared toward a value conscious consumer with typical standard amenities with limited options on upgrades or services.

#### Holiday Inn Express & Suites

Holiday Inn Express is a mid-priced hotel chain within the Intercontinental Hotels Group family of brands. As an "express" hotel, their focus is on offering limited services and a reasonable price. Standard amenities lean toward the convenient and practical, which cater to business travelers and short-term stays. The brand was first launched in the U.S. in 1991, with its first European location in Scotland in 1996, presently there are nearly 2,300 Holiday Inn Express hotels worldwide. Year-end 2013 brand average comparisons for all three franchises are presented in *Table 5*.



BRAND COMPARISON - YEAR END 2013						
Brand	Occ.	ADR	RevPAR	# Hotels	# Rooms	Channel Contribution
Hampton Inn & Suites	68.0%	\$104.57	\$72.73	1,877	193,331	54.0%
Fairfield Inn & Suites	67.7%	\$98.62	\$66.76	715	65,580	57.6%
Holiday Inn Express	69.5%	\$94.87	\$68.79	2,317	223,023	52.0%

Table 5: Hotel Brand Comparisons 2013

As noted above, each of the respective brands fall within a similar range of Occupancy and Rate with the only major difference in the quantity of hotels associated with Fairfield Inn & Suites as compared to the larger brands of Holiday Inn Express and Hampton Inn. According to information provided it would appear that Holiday Inn Express has the highest overall occupancy rate at 69.5% however it also has the lowest ADR of the comparable properties at \$94.87. Often RevPAR (Revenue Per Available Room) is the best way to compare properties to properties and brands to brands.

Using RevPAR as the basis for comparison it would appear that Hampton Inn & Suites could be the best option available. This brand is further strengthened by a channel contribution, or rooms being booked through franchise reservation channels, of 54.0%. A general rule of thumb is that the franchise is doing a fair job if it is contributing 25% of rooms being sold. Each of the above referenced brands has stronger than average channel contributions.

### Conference Center

The City of Delta currently has a limited supply of meeting space. Such facilities are a key asset for communities as they provide venues for conferences, meetings, events, and other gatherings. Because of this public benefit, municipalities often fund and operate such facilities themselves; however, the success of publicly run conference centers typically lags privately run facilities. By including the conference center as part of the hotel development, the hotel operator is able to offset costs associated with the conference center with additional revenue generated by room night demand associated with the center. For these reasons it is recommended that the conference center be owned and operated by the hotel operator.

In order to save on construction costs, it is recommended that the conference center be integrated into the hotel. A standalone facility near the hotel is also an option; however, such a facility will be more costly due to duplicated mechanical systems, lobby space, and land needs.

### Additional Amenities

In order to be successful, a hotel/conference center will require nearby dining options and other attractions to entice travelers to stop and stay. The development of such amenities is the subject of a forthcoming feasibility study.

### Consultants Recommendations

From the discussions with various businesses in and around the subject lodging market (as detailed further in the report), the consultants recommend that the proposed hotel be affiliated with Marriott and in particular a Fairfield Inn & Suites concept with at least 70 guest units. The consultants also recommend that the hotel contain a conference center with approximately 2,500 sq. ft. to 3,000 sq. ft. of meeting space sufficient to accommodate 150 to 200 people in a theatre style-seating configuration.

The recommendation of the consultants for the Fairfield Inn & Suites is largely based on the fact that no Fairfield Inn & Suites currently exists within what is referred to as the “primary” and “secondary” competitive markets. Montrose currently features a Holiday Inn Express & a Hampton Inn. Although Grand Junction features a Fairfield Inn & Suites (40 miles from the subject site), it is outside the primary & secondary competitive market area. Additionally, Fairfield Inn is widely recognized to offer both quality accommodations and high levels of guest comfort.

## Industry Analysis

### Overview of National Lodging Market

The U.S. hotel industry reported increases in its three key performance metrics in 2014, according to data from Smith Travel Research (STR). Overall, the U.S. hotel industry's occupancy rose 3.7 percent to 64.4 percent, its highest level since 1996, its average daily rate was up 4.6 percent to \$115.53 and its revenue per available room increased 8.5 percent to \$74.42.

In 2015, STR and Tourism Economics predict occupancy to rise 1.1 percent to 65.1 percent, ADR to increase 5.0 percent to US\$121.37 and RevPAR to grow 6.2 percent to US\$79.06. Demand is expected to increase 2.4 percent, and supply is predicted to increase 1.3 percent in 2015.

For 2016, STR projects the U.S. hotel industry to post a 0.8% increase in occupancy to 66.0%, a 5.2% rise in ADR to and a 6.0% increase in RevPAR.

On the operational side, guest input through the use of social media is playing an increasing role in hotel management as consumers more frequently rely on guest experiences, not brand loyalty, to make booking decisions. For hotel operators, social media cannot simply be ignored; it is replacing customer satisfaction surveys as the primary mechanism by which guests provide feedback, and it's both instantaneous and shared with the world.

### Overview of Colorado Travel & Lodging Market

The multi-billion dollar travel industry in Colorado is an important part of the State and local economies. The industry is

represented primarily by businesses in the leisure and hospitality sector, transportation, and retail.

### Colorado Overnight-Related Travel Spending

According to the 2014 Colorado Travel Impacts Report (provided by Dean Runyan & Associates), total direct travel spending in Colorado was approximately \$18.6 billion during 2014. Visitors that stayed overnight in commercial lodging (hotels, motels, rented condos, bed & breakfasts) accounted for about 64% of all visitor spending. Lodging expenses (including campgrounds) accounted for 21% of all spending by visitors to Colorado. In terms of visitation, Colorado had record 64.6 million visitors in 2013. The number of visitors coming to Colorado on marketable leisure trips totaled an all-time high of 15.1 million, a 4% increase over 2012.



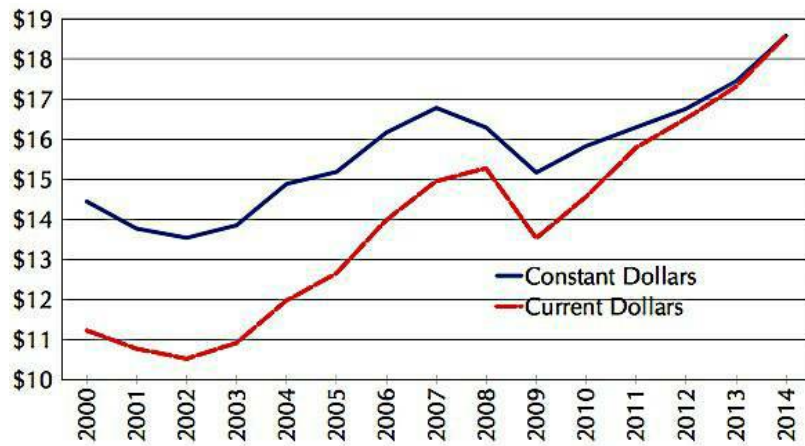


Figure 7: Colorado Visitor Spending Adjusted for Inflation (\$ Billions)

Source: Dean Runyan & Associates, Bureau of Labor Statistics & The Rocky Mountain Lodging Report 2013

The Colorado travel industry experienced a 7.4% increase in spending from 2013 to 2014 in current dollars. When adjusted for price changes, the increase in travel spending for Colorado was approximately 6.5%. Since 1996, visitor-generated spending has increased at an average annual rate of 4.2%.

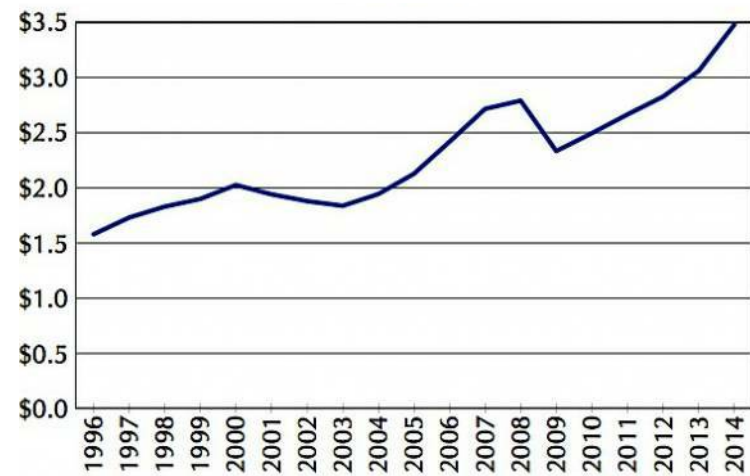
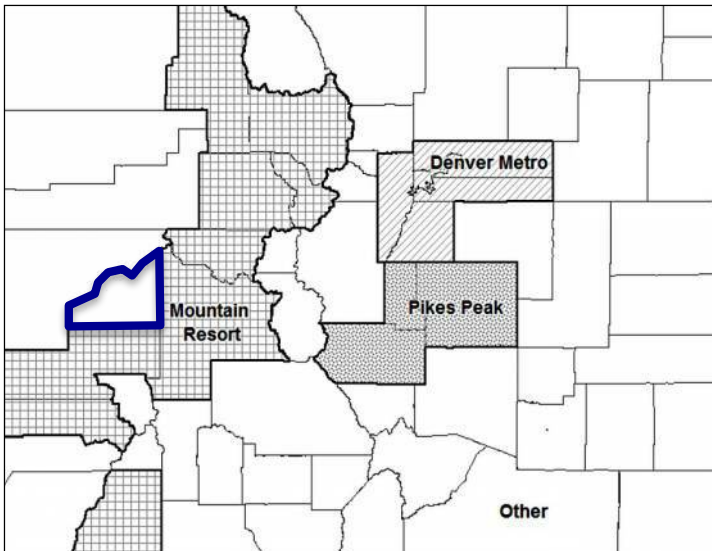


Figure 8: Taxable Sales of Lodging Establishments (\$ Billions)

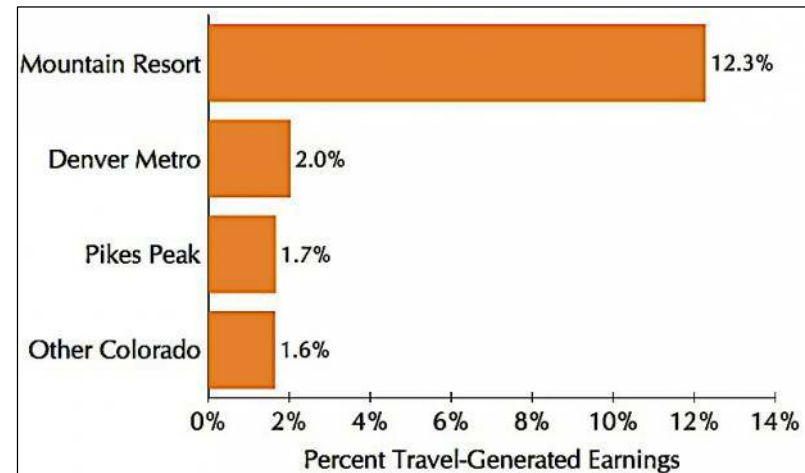
Figure 8 represent the total taxable sales related to the lodging establishments during the years 1996 to 2014. Figure 7 displays the total amounts of both direct and destination spending in Colorado from 2004 to 2014. This data shows how the Colorado travel industry has regained and maintained steady growth since the Financial Crisis in 2008 & 2009.

### Travel Earnings by Region

The Colorado overnight travel impact data is grouped into four regions. These regions are classified as the Denver Metro region, the Pikes Peak region, the Mountain Resort region, and the “Other” region, which includes Delta County. Travel-generated earnings are distributed roughly 47% to the Denver Metro region, one-quarter to the Mountain Resort region, and the remainder to the Pikes Peak region and all other counties. However, it is important to note that the size of travel-generated earnings in relation to total earnings is actually much lower in the Denver Metro region as compared to the Mountain Resort region. This suggests that Counties such as Delta rely more heavily upon the overnight travel industry to maintain economic stability.



Map 4: Colorado Overnight Visitor Regions



Source: Dean Runyan & Associates, BLS

Figure 9: Travel-Generated Earnings as a % of Total Earnings by Region

### Travel Earnings by County

Out of the 64 counties in Colorado, Delta County ranked 32<sup>nd</sup> overall in total travel spending in 2014, with an amount of \$34.1 million. In comparison, Gunnison County (West of Delta County) ranked 18<sup>th</sup> overall with a total travel-spending amount of \$174.6 million. Below is the breakdown for the total travel spending & earnings (in \$ millions) that have been recorded as part of the overnight-travel industry in Delta County.

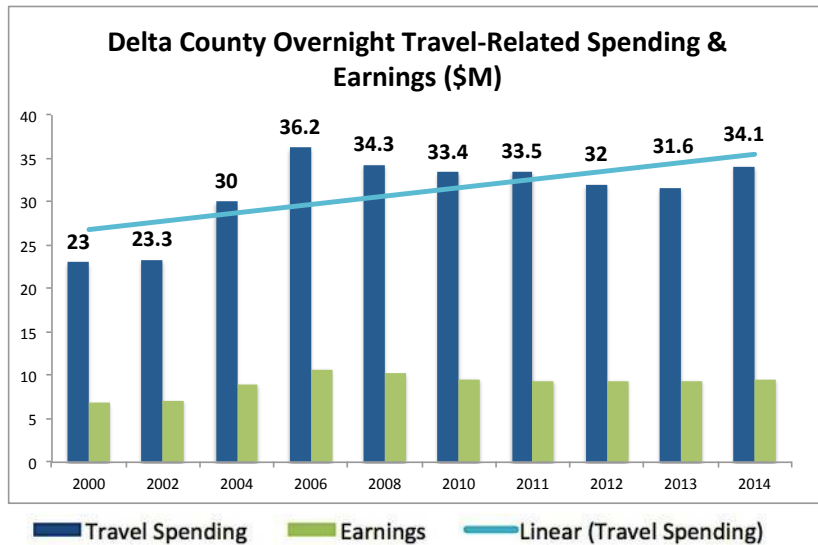


Figure 10: Delta County Travel-Related Spending & Earnings

Figure 10 shows the positive trend line (light blue) that indicates the growth in overnight travel spending over the given time period. The average growth rate in travel-related spending between 2000 & 2014 is 3.08%. The current trend in 2015 suggests that total travel spending will make a full recovery to the average growth rate. Even during the financial crisis, annual travel-related spending never fluctuated by more than 10% from the average growth trend, suggesting that lodging demand growth in Delta County has remained relatively consistent. This consistency aids in projecting the future demand of the County's lodging market. The lodging demand will be further analyzed in this report in succeeding sections.

The primary lodging market of the subject area consists of hotels that are located in and around the general downtown area

of Delta City. Presently, three franchise-related properties exist in this area that would be considered directly competitive to the subject site. They are the aforementioned Quality Inn (180 Gunnison River Dr.) near the northern entrance of Delta City along Main Street, the Days Inn (903 Main St.) near the southern end of the downtown area at the intersection of 9<sup>th</sup> Street and Main Street, and the Rodeway Inn (2124 S. Main St.) located South of the downtown area along Highway 50. The following lodging rates (2014 averages) were obtained through interviews with hotel managers.

DELTA PRIMARY COMPETITION			
(Includes the 3 Franchise-Related Properties in Delta City)			
Hotel Name	# of Rooms	ADR	Occupancy
Quality Inn	47	\$80	69%
Days Inn	41	\$61	55%
Rodeway Inn	36	\$55	58%
<b>Total Room Supply</b>	<b>124</b>		
<b>Delta City Average ADR</b>		<b>\$65</b>	
<b>Delta City Average Occupancy Rate</b>			<b>61%</b>

Table 6: Primary Lodging Competition in Delta City

It is the opinion of the consultants that a new lodging facility entering the market, if properly managed and marketed, would have a competitive advantage to secure the room demand from the typical business traveler or tourist coming to the area wanting a new experience. A new lodging facility would be uniquely positioned, based upon a location proximate to Highways 50 & 92, to capture the business and demand that does exist in the community. Heretofore, the community of Delta City has not been able to satisfy the need for lodging services and therefore the existing demand in both business and tourism that does exist has been traveling elsewhere for satisfacto-

ry lodging accommodations. A new nationally recognized branded hotel would likely be able to capture most of the unmet demand in the area.

## Demand Analysis

Demand Analysis is a key ingredient of feasibility. In addition to basic feasibility, marketing strategies can also be developed. In this analysis, demand generators that are expected to impact the hotel are identified, described, and analyzed. Second, specific data that reflect actual room night demand are investigated and analyzed to determine the level of room demand in the area of primary influence. Finally, conclusions are presented regarding current demand and projected demand in the area.

The following sections display the differences between the lodging rates (occupancy, ADR & RevPAR) in Delta County and the Delta Region. The study “Region” contains all of the hotels in the competitive area that fall within primary, secondary & tertiary levels of competition. Primary competition includes those hotels in Delta City that are nationally branded hotels (Quality Inn, Days Inn & Rodeway Inn). Secondary are all of the other hotels in Delta County & in Montrose, including nationally branded properties in Montrose. Tertiary competition includes all nationally branded hotels in the city of Grand Junction. The data for the County and the region was attained via reports from STR Global. STR and STR Global track supply and demand data for the hotel industry and provide valuable market share analysis for international, regional hotel chains and independent hotels.

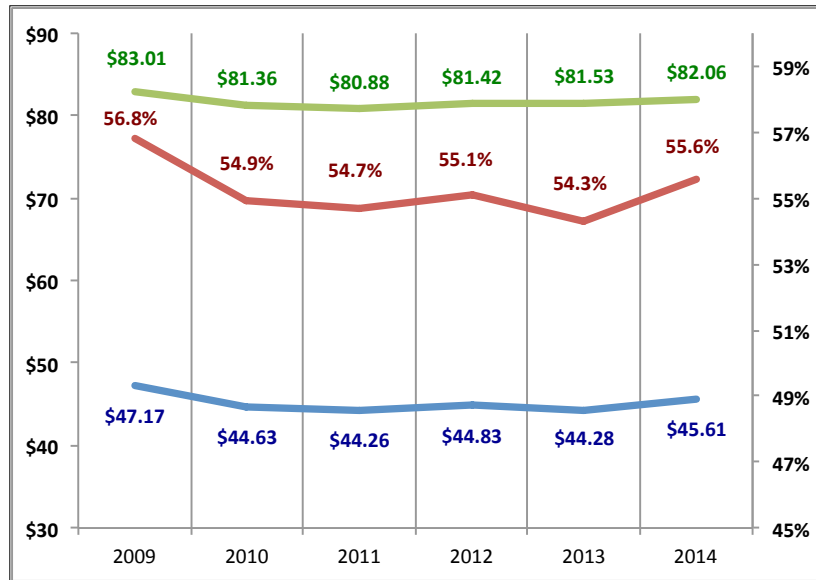
## Delta County Lodging Rates



Source: STR Lodging Reports & the Delta County Treasury Office  
Figure 11: Delta County Lodging Rates

As evidence in the graph above, occupancy and average daily rate (ADR) statistics for the county have experienced mixed results. The occupancy has decreased from 52.7% to 48.3%; the ADR has remained fairly consistent with a decrease from \$70 to \$68.71. Overall, the lodging market in the County has remained experienced little change in these rates over the last five years.

## Region Lodging Rates

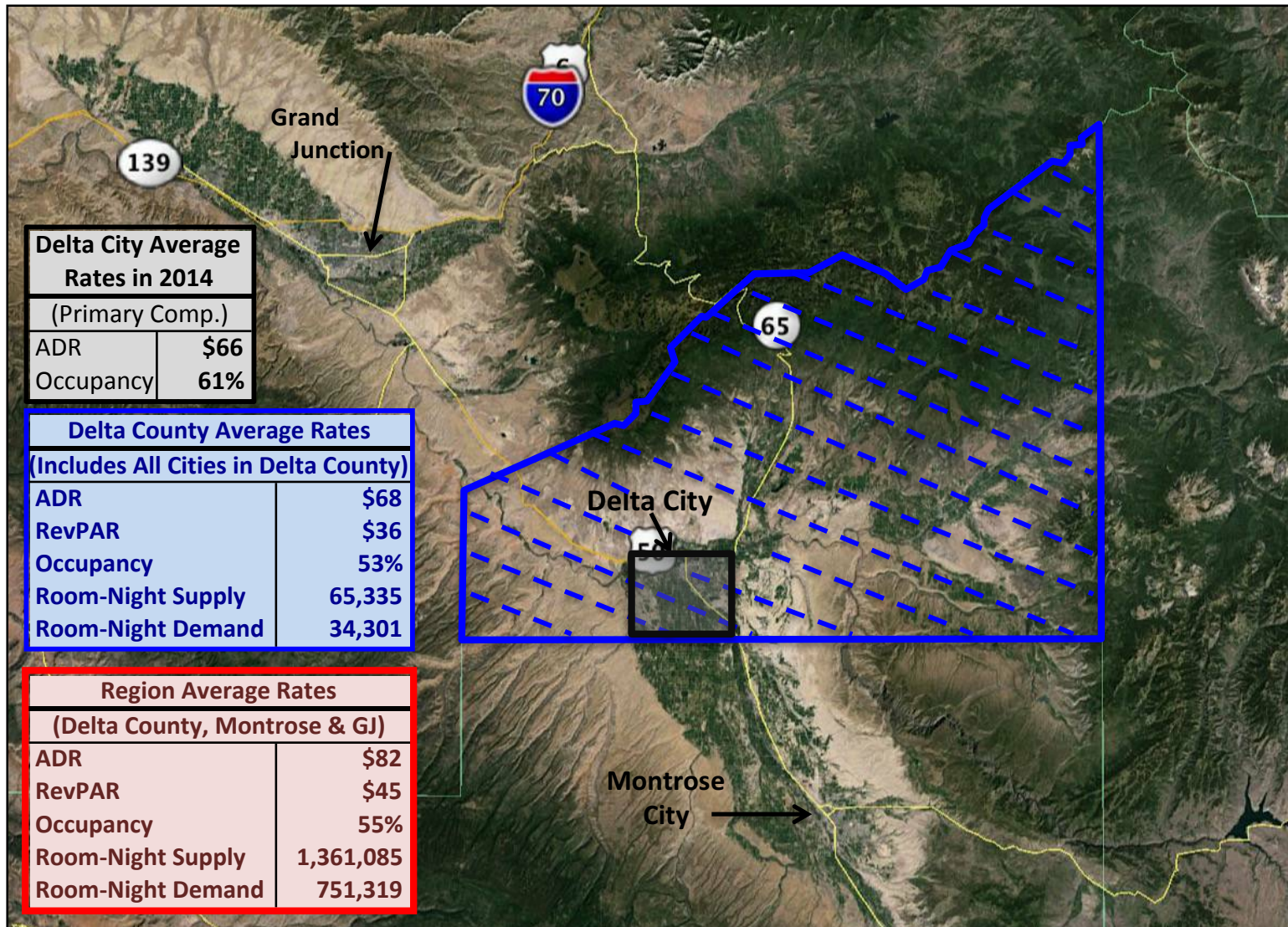


Source: STR Global Lodging Reports  
Figure 12: Lodging Rates in the Delta Region

The lodging rates are significantly higher outside of the County. The most recent data (2014) show a difference between the Region and the County in RevPAR (Revenue Per Available Room) of \$11.80. This is a significant gap. Map 4 on the following page displays the average rates for the City, County and the Region. Once again, the “Region” includes the data averages for all the hotels in Delta County and those in the cities of Montrose and Grand Junction. The Delta City lodging rates were obtained by performing individual interviews with managers from each of the three franchise-related properties in the City.

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## County/Region Map & Rates



Map 4: Local Lodging Rates Comparison Map)

## Lodging Rates Reference Table

LOCAL LODGING RATES HISTORY									
Rate Category	Area	2009	2010	2011	2012	2013	2014	Average	Growth Rate
Average Daily Rate (ADR)	Delta City	*	*	*	*	*	\$65.66	\$65.66	*
	Delta County	\$69.67	\$67.86	\$67.27	\$67.72	\$68.60	\$68.71	\$68.31	-0.28%
	Region	\$83.01	\$81.36	\$80.88	\$81.42	\$81.53	\$82.06	\$81.71	-0.23%
Occupancy Rate	Delta City	*	*	*	*	*	60.7%	60.7%	*
	Delta County	52.7%	52.9%	49.5%	58.0%	53.8%	48.3%	52.5%	-1.71%
	Region	56.8%	54.9%	54.7%	55.1%	54.3%	55.6%	55.2%	-0.43%
Revenue Per Available Room (RevPAR)	Delta City	*	*	*	*	*	*	*	*
	Delta County	\$36.69	\$35.86	\$33.33	\$39.26	\$36.92	\$33.81	\$35.98	-1.62%
	Region	\$47.17	\$44.63	\$44.26	\$44.83	\$44.28	\$45.61	\$45.13	-0.67%

\* Information is Unavailable

Table 7: Local Lodging Rates History

## Recent Lodging Rates in 2014

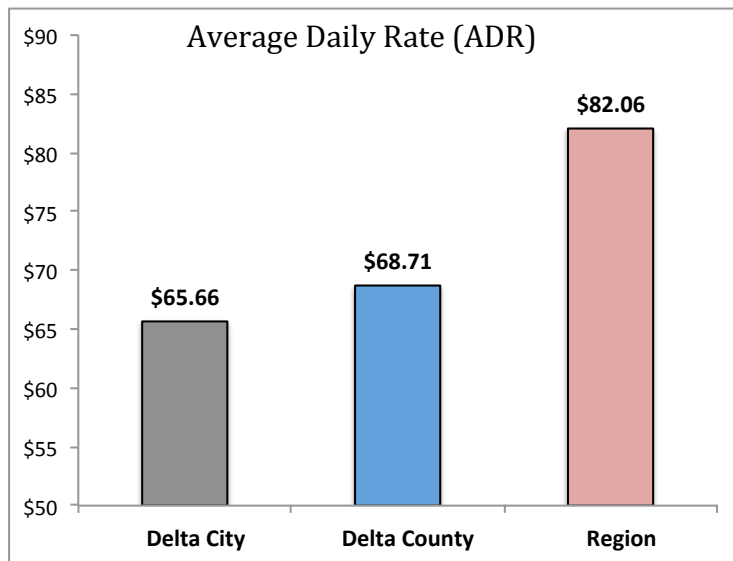


Figure 13: ADR Comparison 2014

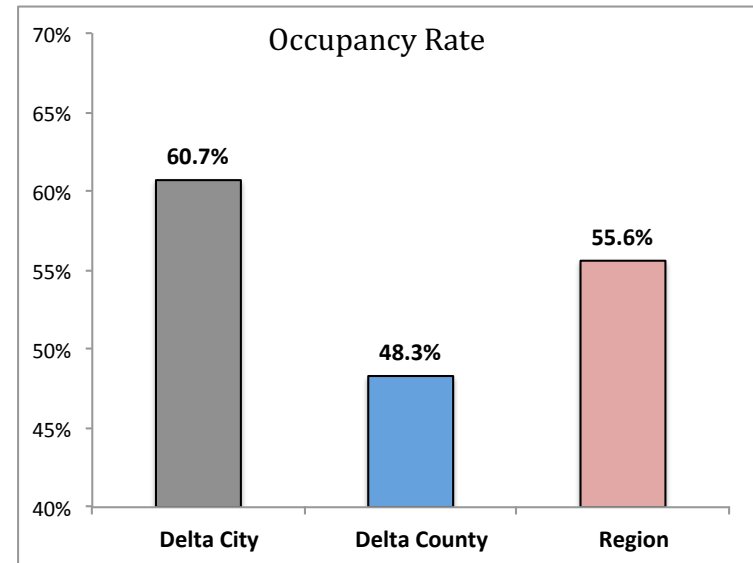


Figure 14: Occupancy Rates Comparison 2014

## Demand Generators

Demand generators in the subject neighborhood are those institutions, industries, and facilities that will have the most significant impact on the occupancy and average daily rate of the proposed facility. The demand generators were determined after conducting a survey of the competitive properties, speaking with various local authorities in the subject area, and time spent in interviews and discussions with various local businesses in the community. The results of the survey indicate the most significant generator is corporate and or leisure travel related to the businesses and events in and around the Delta City and Delta County area. The following summarizes the findings of the demand generator survey:

- 1) Business Travel – 50%
- 2) Leisure Travel – 40%
- 3) Group Business Travel – 10%

## Corporate Business Travel

The industries associated with the largest employers in the County are mining, government and manufacturing. Delta County also remains highly dependent upon its agricultural industry.

DELTA COUNTY'S LARGEST EMPLOYERS	
Employer	Industry
Bowie Resources	Coal Mining
West Elk/Arch Mines	Coal Mining
Delta Correctional Facility	Correctional Facility
City of Delta	Government
County of Delta	Government
US Forest Service	Government
USDA Service Center	Government, NRCS
Grand Junction Pip	Gravel
City Market, Inc.	Grocer
Safeway	Grocer
Volunteers of America	Healthcare Facilities
Delta County Memorial Hospital	Hospital & Trauma Center
Watson Hopper	Industrial/Drilling
Phillips Machine	Industrial/Mining
Welfelt Fabrication	Manufacturing
IMC Manufacturing	Manufacturing
H & H Bolt	Manufacturing/Pipe & Steel
SEI Solar Energy International	Manufacturing/Solar
ISI	Manufacturing/Steel
Doughty Steel	Manufacturing/Steel
TK Mining	Mining
High Country News	Newspaper
Pro - Space Interiors	Office Furniture & Design
Weatherport	Portable Structure Manufacturing
Wal-Mart	Retail
Delta County School District	School System
West Range Reclamation	Sustainable Forest Management
Delta-Montrose Electric Association	Utility

Source: Delta County Economic Development (DCED)

Table 8: Delta County's Largest Employers

### Survey of the Local Lodging Demand

Discussions were held with representatives from each of the County's largest employers to evaluate the room-night demand for the local business area. The following information is useful in understanding the issues relating to the Delta lodging industry as they concern the County's major employers. The results of the discussions are listed below:

#### Delta County Tourism Department

A discussion was held with the Delta County Tourism Coordinator, Ms. Kelli Heppler in regards to the local lodging availability. Ms. Heppler reports that the current availability of lodging (number of rooms) in Delta County has proved insufficient on a number of occasions. Specifically, the "Cherry Days" and the "Apple Fest" consistently attract thousands of visitors to Delta County on an annual basis. The "Apple Fest" is a two-day event held in Cedaredge on the first weekend of October. This event has had an average of 13,000 – 15,000 visitors in recent years (including local attendees). Ms. Heppler explained how many of those who attend these events are forced to find lodging outside of the County due to a lack of room supply. Currently, only 295 hotel rooms exist within the County. Thus, on such weekends with local activities, the strong demand cannot be satisfied by the local supply.

A second concern stated by Ms. Heppler was in regards to the current lodging tax in the County. The current lodging tax is 1.99% and should be used by all lodging properties where visitors stay for less than 30 nights. These are considered "short term stays." The lodging tax can only be applied to such "short term stays." Ms. Heppler reports that many of the lodging properties throughout the County have not been implementing

the lodging tax. Some have claimed that they were not aware of the tax or their ability to impose it. Others have expressed their disinterest in the tax due to their interest in maintaining "competitive rates." However, the lodging tax is within the amount allowed by the State and should be enforced in order to protect and generate valuable funds needed for the County's relatively small lodging industry.

#### USDA Service Center

A discussion was held with Ms. Don Lareau, a technician at the USDA Service Center in Delta City. She speaks on behalf of her superiors by stating that hotels in Montrose are usually preferred over those of Delta City. The reasons for which they prefer Montrose are: Internet speed, overall cleanliness of the lodging facilities, proximity to restaurants, and well-known brand name hotels. Ms. Lareau also expressed a similar concern to that of Ms. Heppler in regards to the lodging supply in the County. Ms. Lareau reports that the "Soil Health Conference" has been held in January each year. The conference features national and local experts who present and instruct attendees on effective organic practices to be used on farms, orchards and in the garden. The conference attracts attendees from both local and distant counties. This is another two-day event that requires more than the available room supply in order to satisfy the demand.

#### Delta County Memorial Hospital

A discussion was held with the Medical Staff Coordinator at the Delta County Memorial Hospital, Ms. Gwen Conrad, in regards to the annual and monthly room-night demand for various needs associated with recruiting specialists to the hospital. Ms. Conrad reports that the local lodging industry has proved insufficient and unsatisfactory in meeting the hospitals recruiting

needs. Ms. Conrad deals primarily with recruiting highly trained medical specialists to the Delta Hospital. Specifically, Ms. Conrad expresses her frustration in respect to the three franchise-related properties within the City: Quality Inn, Days Inn & the Rodeway Inn. Multiple prospective physicians have been dissatisfied with the cleanliness of the rooms, the noise from the local trains and the poor customer service provided by all of these hotels.

The consultants understand that some aspects, such as the noise created by the passing trains cannot be completely controlled by the individual properties. However, Ms. Conrad feels that her responsibility in recruiting these specialists is much more difficult due to the poor-quality rooms and services provided. Many of the prospective specialists have rejected an offer of employment made by the hospital primarily due to the lodging atmosphere to which they were exposed.

Ms. Conrad expressed to the consultants that the hospital has a great need for a larger hotel of higher quality than those that currently exist in the County. She doesn't like to refer anyone to other cities. Ms. Conrad maintains a great appreciation for the local economy and wishes to continue contributing to it in any way possible. However, she cannot afford to lose such prospective employees.

One alternative that Ms. Conrad has pursued over the past year has been the renting of a private executive suite located on Cotton Street. In an attempt to provide a satisfactory lodging experience while visiting the hospital, the Hospital has paid an expensive monthly premium to rent out this suite. Before transitioning to the private suite in 2014, the Hospital would

prefer to lodge their prospective employees at the local, non-franchise lodging properties such as Fairlamb's Bed & Breakfast due to the relatively superior service provided there. The quiet and quaint atmosphere has appealed to many of those visiting the Hospital. However, these alternative options have not satisfied their ultimate need for a larger, more attractive and well-serviced hotel.

#### Quality Inn

A discussion was held with a current manager at the Quality Inn in regards to the major events in the area that create the largest lodging demand. The manager reports that the Cherry Days and the Rock the Canyon Rally events consistently attract large amounts of visitors annually. The manager reports that during such events, all 47 of their rooms are occupied. The manager also reports that the hotel is able to charge a rate between \$110 and \$120. This is approximately 150% of their normal average daily rate (ADR), which is approximately \$80 per night.

The manager at this location reports that the employer in the County that demands the greatest number of rooms from the Quality Inn on an annual basis for business purposes is the Delta County Correctional Facility with a total of 150 nights demanded (Although other employers reported a higher demand). It was also reported that the summer months are the busiest at this location. Most of the winter travelers stay at locations North of Delta County, near the Powderhorn Mountain Resort.

The lodging destinations that exist within 10 miles of the Powderhorn Resort are the Slope Side Hotel, The Grand Mesa

Lodge, the Alexander Lake Lodge and the Mesa Lakes Lodge. The Grand Mesa, Alexander Lake and the Mesa Lakes Lodges feature individual cabins that accommodate between two and four people. Together, these properties have a combined total of 14 rooms and 34 individual cabins. The Average Daily Rate (ADR) for these properties is approximately \$135 per night.

The results from the survey are presented in the following table. Please note that commercial overnight stays will vary from those presented in the table above based on external and internal factors affecting individual businesses and governmental agencies. Nevertheless, the survey results do provide a basis of commercial hotel room night demand in and around the subject market area.

Based upon our survey, the area is providing a minimal basis for room night demand from the existing commercial enterprises and the figures above are not sufficient in and of themselves to provide viability for a new lodging development. It is clear that this area is experiencing strong growth rates in taxable sales and retail developments but until all the anticipated infrastructure is complete, the demand for a new lodging facility will need to be supplemented by other demand generators.

<b>COMMERCIAL TRAVEL SURVEY RESULTS</b>		
<b>Commercial Room Night Users</b>	<b>Annual Room Nights</b>	<b>Monthly Room Nights</b>
Bowie Resources	20	2
Arch Coal	25	2
Delta Correctional Facility	150	12
City of Delta	10	1
County of Delta	140	12
US Forest Service (Included with USDA)	110	9
USDA Service Center (Field Office)	12	1
Grand Junction Pip	12	1
City Market, Inc.	80	6
Safeway	0	0
Volunteers of America	8	1
Delta County Memorial Hospital	180	15
Watson Hopper	10	1
Phillips Machine	40	4
Welfelt Fabrication	35	3
IMC Manufacturing	25	2
H & H Bolt	14	1
SEI Solar Energy International	20	2
ISI	35	2
Doughty Steel	30	2
TK Mining	0	0
High Country News	0	0
Pro - Space Interiors	20	2
Weatherport	24	2
Wal-Mart	0	0
Delta County School District	250	21
West Range Reclamation	40	4
Delta-Montrose Electric Association	50	5
Miscellaneous	250	21
<b>Overall Total</b>	<b>1,590</b>	<b>134</b>

Table 9: Commercial Travel Room Night Demand

### Leisure Travel

Other demand will come from such items as en-route traffic along Highways 50 & 92 and individuals and groups coming to visit the area for leisure. It is believed that this demand generator will approximate 40% of the subject's room night demand.

As discussed earlier the Delta County area has numerous recreational and outdoor amenities attracting year round visitors for hunting, fishing, mountain biking, hiking, and snowmobiling. Some of the largest events in the area include the Delta County Fair, Paonia Cherry Days, Deltarado Days, Colorado Mountain Winefest, Rock the Canyon Rally and more. Visitation during these peak times can reach upwards of 15,000 people.

Demand from this segment appears to be strongest throughout the summer months and on weekends. In general, this market segment is projected to grow at rate commensurate or greater than that of the market overall.

### Group Business Travel

The group commercial segment consists of group meetings, conventions, education, training seminars, athletic teams, and/or other related functions of ten or more people. Demand from this segment appears to be strongest mid-week. It is anticipated that the sales and marketing efforts of the sales staff will draw additional sources of group business to the hotel as the proposed facility will be easily accessible from the surrounding corporate developments and will be perceived as a fresh new hotel in the community. Based on these factors, demand from this segment is projected to grow at rates similar to that of the area.



Tables 11 & 12 display the demand indicators for Delta County, Delta City and the State of Colorado between 2009 and 2013.

Delta Demand Indicators		
#	Indicator	Growth Rate
1	Population Growth - Delta County	0.20%
2	Population Growth - Delta City	0.31%
3	Gross Sales - Delta County	1.56%
4	Gross Sales - Delta City	1.88%
5	AADT on HWY 50 @ Gunnison River Bridge	2.02%

Table 10: Demand Indicators for Delta County & City

#	Demand Indicators	Growth Rate
1	Population Growth - Colorado	1.12%
2	Gross Taxable Sales - Colorado	2.77%

Source: Colorado Department of Revenue

Table 11: Colorado Demand Indicators

### Room Night Demand Quantification

As discussed earlier in this report, a review of the competitive properties in the subject market revealed only three notable properties that would be considered directly competitive to the proposed facility. Primary competitors would typically be limited-service properties in the upper mid range rate tier. Since there is no hotel in the City that meets these criteria, the three franchise affiliated properties within the downtown area are considered primary competitors. Additionally, it is customary to also include information on additional properties in the market that would be considered secondary or indirectly competitive to the subject.

PRIMARY COMPETITION					
Competition Level	Name of Hotel	Franchise Parent Group	City	Distance from Site (Miles)	ROOM SUPPLY
Primary Competition	Quality Inn	Choice Hotels	Delta	0.2	47
	Days Inn	Wyndham Worldwide	Delta	1.5	41
	Rodeway Inn	Choice Hotels	Delta	3.0	36
TOTAL PRIMARY COMPETITION					124

SECONDARY COMPETITION					
Competition Level	Name of Hotel	Franchise Parent Group	City	Distance from Site (Miles)	ROOM SUPPLY
Secondary Competition (Delta & Montrose)	Four Seasons River Inn	None	Delta	0.2	11
	Riverwood Inn & RV Park	None	Delta	0.2	14
	El D Rado Motel	None	Delta	1.6	12
	Westways Court Inn	None	Delta	2.0	12
	Tri R Motel	None	Cedaredge	14.2	11
	Affordable Inn of Cedaredge	None	Cedaredge	15.0	31
	Hampton Inn	Hilton Worldwide	Montrose	21.0	64
	North Fork Motel	None	Hotchkiss	21.5	6
	Hotchkiss Inn	None	Hotchkiss	21.7	24
	Black Canyon Motel	None	Montrose	22.9	49
	Country Lodge	None	Montrose	22.9	23
	Red Arrow	None	Montrose	23.0	57
	Baymont Inn	Wyndham Worldwide	Montrose	23.4	47
	Super 8	Wyndham Worldwide	Montrose	23.5	42
	Days Inn	Wyndham Worldwide	Montrose	23.8	67
	Stay Wise Inns	None	Montrose	25.0	51
	Holiday Inn Express & Suites	Intercontinental Hotels Group	Montrose	25.4	122
	Quality Inn	Choice Hotels	Montrose	26.5	52
	Redwood Arms	None	Paonia	28.7	18
	Rocky Mountain Inn	None	Paonia	30.0	22
	Hitching Post Hotel	None	Crawford	32.2	10
SECONDARY COMPETITION					745
TOTAL PRIMARY & SECONDARY COMPETITION					869

Table 12: Summary of Primary & Secondary Competitive Properties

TERTIARY COMPETITION IN GRAND JUNCTION					
Competition Level	Name of Hotel	Franchise Parent Group	City	Distance from Site (Miles)	ROOM SUPPLY
Tertiary Competition (Grand Junction)	El Rio Rancho Motel	None	Grand Junction	37.3	20
	Best Western Grande River Inn & Suites	Best Western International	Grand Junction	37.9	49
	Columbine Motel	None	Grand Junction	38.6	14
	Historic Melrose Hotel	None	Grand Junction	39.0	25
	Grand Junction Palomino Inn	None	Grand Junction	39.0	20
	Springhill Suites (Downtown)	Marriott	Grand Junction	39.1	100
	The Ipswich Inn	None	Grand Junction	39.1	27
	Hampton Inn (Downtown)	Hilton Worldwide	Grand Junction	39.3	80
	Knights Inn	None	Grand Junction	39.3	42
	Timbers Motel	None	Grand Junction	39.3	30
	Fairfield Inn & Suites (Downtown)	Marriott	Grand Junction	39.4	70
	Mesa Inn (Airport)	None	Grand Junction	41.4	123
	Holiday Inn Express & Suites	Intercontinental Hotels Group	Grand Junction	42.6	89
	Value Pack	Value Pack LLC	Grand Junction	43.0	121
	Candlewood Suites	Intercontinental Hotels Group	Grand Junction	43.0	97
	West Gate Inn	None	Grand Junction	44.4	100
	Affordable Inn (Airport)	None	Grand Junction	44.8	60
	Travelodge (Airport)	Travelodge Franchise Systems	Grand Junction	44.8	140
	Super 8 (Airport)	Super 8 Worldwide	Grand Junction	44.8	128
	Quality Inn (Airport)	Choice Hotels	Grand Junction	44.8	107
	Double Tree (Airport)	Hilton Worldwide	Grand Junction	44.8	273
	Clarion Inn (Airport)	Choice Hotels	Grand Junction	44.8	239
	Ramada (Airport)	Wyndham Worldwide	Grand Junction	44.8	100
	Holiday Inn Hotel & Suites (Airport)	Intercontinental Hotels Group	Grand Junction	44.8	120
	Comfort Inn (Airport)	Choice Hotels	Grand Junction	44.8	57
	Days Inn (Airport)	Wyndham Worldwide	Grand Junction	44.8	80
	La Quinta Inn & Suites (Airport)	The Blackstone Group	Grand Junction	44.8	108
	EconoLodge (Airport)	Choice Hotels	Grand Junction	44.8	49
	America's Best Value Inn (Airport)	Vantage Hospitality Group	Grand Junction	44.8	97
	Grand Vista Hotel (Airport)	None	Grand Junction	44.8	158
	Courtyard (Airport)	Marriott	Grand Junction	44.8	136
	Residence Inn (Airport)	Marriott	Grand Junction	44.8	104
	Motel 6 (Airport)	The Blackstone Group	Grand Junction	44.8	100
TERTIARY COMPETITION					3,063
<b>TOTAL COMPETING ROOM SUPPLY (Primary, Secondary &amp; Tertiary)</b>					<b>3,932</b>

Table 13: Tertiary Competition in Grand Junction

As seen in the previous tables, there exists very little primary competition within Delta City in regards to the total amount of guestrooms (franchise property guestrooms). The city of Montrose (South of Delta City along Highway 50) currently has a population of about 19,200 people. The total number of guestrooms provided by franchise-related properties in Montrose is 330. The largest of these is the Holiday Inn Express & Suites with 122 guestrooms available. This is more than double the number of rooms provided by any of the other franchise properties within the study area.

The main attractions that exist in and around Montrose City are the Black Canyon of the Gunnison National Park (34 miles from Delta City), and mountain biking trails and other activities in and around the Gunnison Gorge National Conservation Area. Montrose City takes pride in it's adventure sports, natural attractions and the art and culture related to the area which contains many Ute Indian artifacts. Delta City finds itself in close proximity to these same national parks and other attractions.

#### Primary Competition Property Descriptions

Below are the photo and summary descriptions of the subject primary competition:

<b>QUALITY INN</b>	
ADDRESS	180 Gunnison River Drive, CO 81416
TYPE OF MOTEL	Mid Range - Limited Service
ROOM #	47
YEAR BUILT	1994
DESIGN	Two-Story, wood frame, interior corridors
ROOM FEATURES	All guest rooms include: AM/FM alarm clock, cable television, voicemail, free high-speed internet
AMENITIES	Fitness center, guest laundry, continental breakfast
CUSTOMERS	60% Business-related, 40% Leisure-related
OCCUPANCY RATE	69%
ADR	\$80 (Reaches up to \$120/night Occasionally)
REMARKS	This property is the newest of the three franchise-related properties in the City. It is the preferred business-related lodging destination in the City due to it's central location in the downtown area, the interior corridors, the cleaner appearance and the brandname association. Generally, this property maintains a higher ADR than the other two hotels included in the "Primary Competition." This property is the nearest hotel in proximity to the subject site. The property is located .2 miles East of the subject site.

Table 14: Quality Inn Property Specifications


<b>DAYS INN</b>	
ADDRESS	903 Main St., Delta, CO 81416
TYPE OF MOTEL	Economy/Budget - Limited Service
ROOM #	41
YEAR BUILT	1965
DESIGN	Two-Story, wood frame, exterior corridors
ROOM FEATURES	All guest rooms include: AM/FM alarm clock, cable television, voicemail, free high-speed internet
AMENITIES	Outdoor pool, hot tub, fitness center, guest laundry, continental breakfast
CUSTOMERS	85% Business-related, 15% Leisure-related
<b>OCCUPANCY RATE</b>	<b>55%</b> (As of September, 2015)
<b>ADR</b>	<b>\$61</b> (As of September, 2015)
REMARKS	This property features a large parking lot which attracts those commercial truck drivers passing through the area. For this reason, 85% of the customers are business-related. The property is able to maintain a higher ADR (as opposed to Rodeway Inn) due to it's location in the downtown area. The property is located on Main St., approximately 1.5 miles South of the subject site.

Table 15: Days Inn Property Specifications


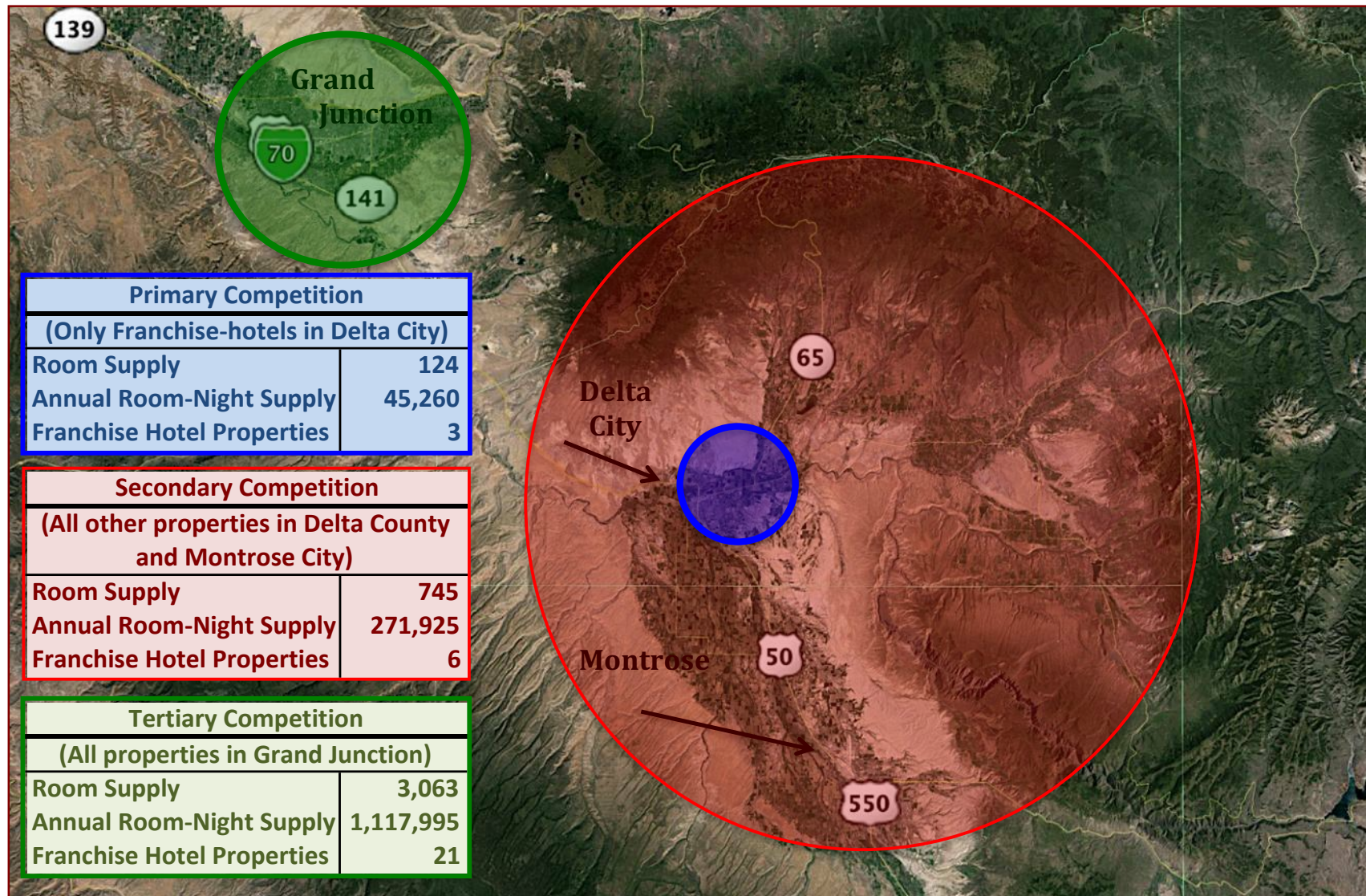
<b>RODEWAY INN</b>	
ADDRESS	2124 S. Main St., Delta, CO 81416
TYPE OF MOTEL	Economy/Budget - Limited Service
ROOM #	36
YEAR BUILT	1985
DESIGN	Two-Story, wood frame, exterior corridors
ROOM FEATURES	All guest rooms include: AM/FM alarm clock, cable television, voicemail, free high-speed internet
AMENITIES	Outdoor pool, guest laundry, continental breakfast
CUSTOMERS	35% Business-related, 65% Leisure-related
<b>OCCUPANCY RATE</b>	<b>58%</b> (As of September, 2015)
<b>ADR</b>	<b>\$55</b> (2014)
REMARKS	This property features the largest outdoor swimming pool of the two hotels that feature outdoor pools (Days Inn & Rodeway Inn). Thus it attracts more families with children. Most of it's business-related customers come in the winter. Those leisure-related customers generally come to visit the Black Canyon of the Gunnison. The property is located on Highway 50, approximately 3 miles South of the subject site.

Table 16: Rodeway Inn Property Specifications

## Competition Map



Map 5: Competition Map

## Market Share Analysis

Operational results were sought for the competitive properties. The room night demand for the competitive market was calculated for the year 2015 with information as provided by the owners, managers, competitors and/or employees of the respective facility.

The total number of rooms for the competitive market is 124 rooms. The total annual supply of room nights is 45,260. Room night demand is calculated below on a property-by-property basis from the information gathered in the market research.

MARKET OCCUPANCY SUMMARY					
Property	# of Rooms	Estimated Occupancy	Room Supply	Room Demand	Weight
Quality Inn	47	69.0%	16,920	11,675	100%
Days Inn	41	55.0%	14,760	8,118	80%
Rodeway Inn	36	58.0%	12,960	7,517	84%
<b>Total</b>	<b>124</b>	<b>60.7%</b>	<b>44,640</b>	<b>27,310</b>	<b>-</b>
<b>Weighted Occupancy</b>		<b>61.26%</b>			

Table 17: Primary Market Occupancy Summary

As noted, room demand was estimated from surveys conducted among the primary and secondary competitors. Since the owners, general managers, sales managers, or night auditors of the motels provided the data, the veracity of these rates could not be verified. Variance may be due to management rounding the numbers or inexact data.

Fair market share is the ratio of the hotel's room supply to the market's total room supply. Actual share is the ratio the re-

spective hotel is in fact getting in the market.

MARKET SHARE ANALYSIS					
Property	# of Rooms	Occ. Rate	Fair Share	Actual Share	% Difference
Quality Inn	47	69.0%	37.9%	42.75%	112.8%
Days Inn	41	55.0%	33.1%	29.73%	89.9%
Rodeway Inn	36	58.0%	29.0%	27.52%	94.8%
<b>Total</b>	<b>124</b>	<b>60.7%</b>	<b>100.0%</b>	<b>100.00%</b>	

Table 18: Primary Competition Market Share Analysis

Of the three properties shown above it is interesting to note that the Quality Inn is achieving greater than 100% of "fair share" as shown in the actual share and percent difference columns. This may be attributable to the fact that this property is the newest addition to the market (1994). It is likely that lodging patrons may be choosing the newer Quality Inn property for their lodging needs based upon perceived newness and quality of the facility. With this in mind, it is possible that a newly constructed facility in Delta City may be able to achieve a greater than 100% fair share penetration if the property were perceived to be comparable or even slightly superior than what is currently being offered in the market.

## Demand Growth

Table 19 identifies factors that likely have a direct impact on demand for lodging services. It depicts 5-year historical results for visitation to the Black Canyon of the Gunnison National Park Visitors Center (located in Montrose, approximately 34 miles southeast of subject site) as well as the two State Parks, Sweitzer Lake State Park (3.8 miles southeast of the subject

site) and Crawford State Park (27 miles East of the subject site) located within the County. The table also presents the growth rate for the traffic count along the Grand Mesa Scenic Byway. This information provides a broad overview of demand for at-

tractions in the area that could affect lodging demand. For review, the consultants have included again the total Gross Sales for both Delta County and City. Gross lodging sales for the County are also included.

<b>GENERAL LODGING DEMAND INDICATORS</b>						
<b>Demand Indicator</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Change Inf. Adj.</b>
Delta County Gross Lodging Sales (000s)	\$3,951	\$3,862	\$3,589	\$4,227	\$3,975	<b>0.12%</b>
Delta County Gross Sales (000s)	\$595,026	\$737,131	\$656,906	\$642,736	\$643,032	<b>1.56%</b>
Delta City Gross Sales (000s)	\$363,347	\$411,380	\$399,018	\$401,437	\$398,736	<b>1.88%</b>
Black Canyon of the Gunnison NP visits	171,451	176,344	168,336	192,570	175,852	<b>0.51%</b>
Sweitzer Lake State Park Visits	*	55,824	56,377	53,572	49,595	<b>-2.91%</b>
Crawford State Park Visits	*	134,947	144,877	103,787	113,960	<b>-4.14%</b>
Grand Mesa Scenic Byway AADT (2006 - 2012)	*	*	*	519	*	<b>2.95%</b>
* Information Not Provided						

Table 19: General Lodging Demand Indicators

### Unsatisfied/Latent Demand

Unsatisfied demand occurs when guests who wish to stay at hotels in the market area are unable to do so because all the properties are full. In the presence of unsatisfied demand, a new lodging property will have a shorter penetration period because it will immediately gain occupancy from the overflow during peak periods. A survey of the competing properties indicated that there is a substantial amount of unsatisfied demand during the weekends when events or conferences take place within the County.

Latent demand is a condition occurring when the available properties do not have facilities needed by guests. A survey of the competing properties indicated that certain business-related amenities such as business conference rooms and higher quality rooms are not currently provided by the primary competition properties. Additional latent demand is generated by the brands themselves as some customers are loyal to and will travel farther to stay in specific hotels. The addition of a previously unrepresented Fairfield Inn and Suites to the primary and secondary market will capture a portion of this latent demand.

### Demand Estimate

As indicated by the demand generators collected, the overall subject area has experienced slow, but stable growth during the last five years. The State Parks have experienced lower visitation rates while the number of visits at the National Park remains consistent. Using these visitation figures and popula-

tion growth as a proxy for leisure travel demand growth, and using countywide sales growth as a proxy for business travel demand growth yields a projected demand growth of 1.31% per year. For this analysis, demand growth is estimated at 2% per year to capture additional demand driven by unsatisfied and latent demand.

### Supply & Competition

A key component of the supply and demand relationship, affecting future lodging demand, is the current and anticipated supply of competitive lodging facilities. The following efforts were made to evaluate the area's competitive environment:

- 1) Identify all area lodging facilities and determine which are primary competitors.
- 2) Review room rate structure, occupancy levels, market orientation, and facilities and amenities of the competition.
- 3) Determine the likelihood and location of additional lodging units that may be added to the market within the foreseeable future.

As referenced in the Demand Quantification section, the area was canvassed to determine those lodging facilities in competition with the proposed subject property. The geographical boundaries of the search centered on properties in and around Delta City and the overall Delta County area. Only the three franchise-related properties within Delta City are considered

directly competitive to the subject site. The properties were inspected, and the owners or managers were interviewed.

All of the primary competition properties are affiliated with a national brand and compete in the economy or mid-range rate categories. A primary competitor is considered to be one with similar characteristics, target markets, and services. The characteristics include location, proximity to demand generators,

age and condition, and amenities. Therefore, a new property located at the proposed site, classified in the upper mid-range rate category, offering the amenities demanded for the area, would prove superior over the primary competitors in each of the competitive characteristics. The following is a summary description of franchise-related properties showing property type, room rates, and amenities.

SUMMARY OF LODGING FACILITIES (Primary Competition)						
Name	Location	Type	# of Rooms	OCC.	ADR	Amenities Provided:
Quality Inn	180 Gunnison River Drive	Mid-Range Limited Service	47	69%	\$80	Fitness Center, Guest Laundry, Continental Breakfast
Days Inn	903 Main Street	Economy Limited Service	41	55%	\$61	Outdoor Pool & Hot Tub, Fitness Center, Guest Laundry, Continental Breakfast
Rodeway Inn	2124 S. Main Street	Economy Limited Service	36	58%	\$55	Outdoor Pool, Guest Laundry, Continental Breakfast
Total # of Rooms			124	61%	\$65	<b>Not Provided:</b> Indoor Pool, Business Center, Meeting/Conference Rooms
Average Occupancy Rate						
Average ADR						

Table 20: Primary Competition Lodging Summary

Amenities such as indoor pools, business centers and conference rooms are provided at hotels in Montrose such as the Hampton Inn (Townsend Rd.) but not in Delta. Such amenities can become the ultimate deciding factor for many consumers. A new hotel in Delta with these amenities will have a competitive advantage over the existing competition.

### Supply Growth

No additional lodging supply has been added to the subject area since 1994. The Quality Inn is the newest property to the area and was constructed in 1994. The fact that there has not been any additional supply added to the market since 1994 suggests that a new property may be able to capitalize on what would be considered a new and attractive hotel in Delta City.

### Potential New Lodging Units

Information concerning additional lodging units was sought in the market survey of competing properties. City and county planners were contacted to inquire of any future motel or hotel construction; hotel operators were also questioned regarding expansion or knowledge of any proposed new facilities. According to our survey of the area, there are no other hotels currently under construction or planned additions that would impact the subject property in the foreseeable future.

### Anticipated Room Supply

Our best estimate for future supply growth in the following years is based on the addition of the 70-room subject property. Future supply growth will depend on future demand patterns. It is anticipated that over the long run, supply and demand will

increase or decline such that market occupancy ranges from 60 percent to 70 percent for the general market in a given year. Any time occupancy exceeds 70 or 75 percent in the subject market there is a strong incentive for existing properties to expand or for new properties to enter the market. The projected supply growth is summarized in the following table.

GROWTH IN ROOM SUPPLY			
Year	Planned Units	Annual Growth Rate	Primary and Secondary Market
2016	0	0.0%	317,185
2017	70	8.1%	342,735
2018	0	0.0%	342,735
2019	0	0.0%	342,735
2020	0	0.0%	342,735
2021	0	0.0%	342,735

Table 21: Projected Growth in Room Supply

### Growth in Room Night Demand

As indicated by the various demand generators collected, the overall subject area has experienced stable growth during the last five years. Based on past performance in the area, the increasing volume of traffic flow, and population growth combined with the preceding figures in Table 19, demand is expected to grow at an average annual rate of about 1.31% for the next five years. The following table displays the projected growth in room night for the County according to the projected growth rate.

ROOM NIGHT DEMAND GROWTH		
Year	Growth Rate	Room Nights
2017	2.00%	178,588
2018	2.00%	182,160
2019	2.00%	185,803
2020	2.00%	189,519
2021	2.00%	193,309

Table 22: Room Night Demand Growth (including Primary & Secondary Competition)

### Correlation of Supply & Demand

By correlating current supply and demand in the lodging market, market occupancy can be quantified. The projected growth in supply and demand over the next five years as outlined previously, is summarized in the table below. The supply and demand estimates indicate that there will be a drop in overall occupancy for the area with the increase of supply this project brings. However, demand growth is projected to bring occupancy back to its current level after three years.

SUMMARY OF SUPPLY & DEMAND (Growth Rates & Actual # of Hotel Rooms)					
Year	Growth Rates		# of Hotel Rooms		% Occ.
	Demand	Supply	Demand	Supply	
2016	0.0%	0.0%	175,086	317,185	55.2%
2017	2.0%	8.1%	178,588	342,735	52.1%
2018	2.0%	0.0%	182,160	342,735	53.1%
2019	2.0%	0.0%	185,803	342,735	54.2%
2020	2.0%	0.0%	189,519	342,735	55.3%
2021	2.0%	0.0%	193,309	342,735	56.4%

Table 23: Summary of Projected Supply & Demand in Primary and Secondary Market

The above projections could be invalidated if there are major changes to the national travel industry or business and leisure travel to the subject area in general, resulting from any number of factors, including but not limited to the local and world economic and political climate as well as and changes in travel behaviors. The projections are based upon the best estimates at this time.

### Project Occupancy & Revenue

The market occupancy projections given above may have a wider range than what will actually occur because of variables associated with forecasting. Nevertheless, the data above gives a range of occupancy from which the subject's performance can be projected. Because of the newness of the facility, it is believed that the subject property will develop competitive market penetration during its second year of operation. Typically, new lodging facilities reach a stabilized occupancy in the third to fifth year of operation. It is estimated that the subject property will have an occupancy rate, at stabilization that is slightly higher than the market average because of its newness, location and strong franchise affiliation.

### Subject Occupancy Projections

There are several factors to consider with respect to the projected occupancy rates for the subject hotel. First, the above projected market occupancy rate for the subject area has been taken into consideration. Second, the anticipated quality and pricing tier of the projected subject hotel will be reviewed. Third, the proposed subject hotel, when completed, will be

new and relatively unknown to the traveling public, and it is anticipated that it will take time for the subject property to reach its full potential in terms of occupancy levels. These factors will be considered below, followed by an estimate of the projected occupancy levels of the proposed subject hotel.

#### Market Occupancy

The market occupancy projections above represent a composite average occupancy for the primary and secondary competitors of the proposed subject hotel. Under normal circumstances (and assuming competent management and a good location) a new lodging property entering the market would be expected to have a stabilized occupancy rate at or above the competitive market average, based upon its newer age and condition.

#### Quality/Tier of Subject Hotel

The hotel will cater principally to commercial business, government, and leisure travel. The property is to be competitively positioned in rate based on quality and amenities. It is anticipated that the perceived quality of the subject hotel will be very good in the local market.

#### Market Penetration/Stabilization

The subject hotel will be affiliated with a nationally recognized franchise association such as a Fairfield Inn & Suites or equivalent. Highlights for comparable national brand system-wide performance through year-end 2013 are given in Table 5 on page 18 of this report.

PROJECTED SUBJECT OCCUPANCY					
Year	Market Occupancy	Subject's Fair Share	Subjects Projected Share	Percent of Fair Share	Subject Occupancy
2017	52.1%	7.5%	7.5%	100%	52.1%
2018	53.1%	7.5%	7.8%	105%	55.8%
2019	54.2%	7.5%	8.2%	110%	59.6%
2020	55.3%	7.5%	8.2%	110%	60.8%
2021	56.4%	7.5%	8.2%	110%	62.0%

Table 24: Subject Occupancy Rate Projection

It is estimated that the proposed subject property will achieve a premium overall penetration rate relative to the competition

occupancy levels slightly higher than the market average. The strong franchise affiliation, location, and perceived quality are

projected to generate superior perception and appeal among travelers. Please note however that there will be an absorption period for the proposed property for at least the first two years of operation due to the fact that market participant(s) will need to become accustomed to having a facility located in the Delta area whereas historically there has been a lack of supply.

The duration of this period could be mitigated by the location on Highway 50, strong brand affiliation, conference center and amenities as we have discussed. Based on these factors, the percent of fair share for the subject has been estimated at 100% for the first year, 105% for the second year, and 110% for the remainder of the projection period. The lower occupancy rates in the first and second years are a reflection of a typical market exposure period.

## Average Daily Rate Estimate

To determine an ADR estimate for the subject property, a combination of brand, regional, and local factors were analyzed. As identified earlier in this report, Fairfield Inns and Suites achieve an ADR of \$98.62. As depicted in Table 25 below, this is 99.3% of the average ADR for upper-mid tier hotels from the top three brands. The average ADR for upper-mid tier hotels in Montrose, CO, the closest comparison location, is \$118. This would imply a Fairfield Inn and Suites ADR of \$117.13 in the Montrose market. As there are no upper-mid tier hotels in Delta, a comparison of the mid tier Quality Inn hotels in Montrose and Delta will identify price differences between the two locations. Comparing the ADRs for these hotels identifies an 11.1% discount in the Delta ADR. Applying this discount to the estimated Fairfield Inn and Suites ADR for Montrose yields an estimated project ADR of \$104.11.

SUMMARY OF ADR								
	Tier	Nationwide	% of Ave.	Montrose Actual	Montrose Estimated	Delta Actual	% of Montrose	Delta Estimated
Quality Inn	Mid	NA	NA	\$90.00	\$90.00	\$80.00	88.9%	\$80.00
Holiday Inn Express	Upper Mid	\$104.57	105.3%	\$102.00	\$102.00	NA	NA	\$90.67
Hampton Inn & Suites	Upper Mid	\$94.87	95.5%	\$134.00	\$134.00	NA	NA	\$119.11
<b>Fairfield Inn &amp; Suites</b>	<b>Upper Mid</b>	<b>\$98.62</b>	<b>99.3%</b>	<b>NA</b>	<b>\$117.13</b>	<b>NA</b>	<b>NA</b>	<b>\$104.11</b>
<i>Ave. Upper Mid</i>	<i>Upper Mid</i>	<i>\$99.35</i>	<i>100.0%</i>	<i>\$118.00</i>	<i>\$118.00</i>	<i>NA</i>	<i>NA</i>	<i>\$104.89</i>

Table 25: Summary of the Projected Average Daily Rate

It is important to note that demand in the market is still relatively new and could be very price sensitive. Additionally, in that the subject property will be opening in a new location where historically there has not been a substantial supply. The consultants believe that the ADR for the proposed subject should be in a relatively close range to what is currently achieved at the competition.

Based upon the aforementioned data, it is believed that the proposed facility's first year ADR could be about \$104. It is noted that the \$104 is higher than the comparable properties in Delta City, however such a premium can be achieved with a newer property that is positioned in an upper-mid tier in con-

trast to the existing properties that are classified at the mid and economy levels. This ADR is likely a best-case scenario, and a conservative estimate for the lower band of likely ADR is the national average of \$99.

### Projected Subject Revenue

The tables below display the summarized projections of what a Fairfield Inn & Suites located on the subject site could experience in the next five years in both a high and low ADR scenario. These projections are based upon the current market rates that were obtained via STR lodging reports, regional surveys, and personal interviews with hotel managers.

PROJECTED SUBJECT REVENUE						
Year	Subject Occupancy	Available Room Nights	Occupied Rooms	ADR*	Room Revenue	RevPAR
2017	52.1%	25,550	13,312	\$104.89	\$1,396,248	\$54.65
2018	55.8%	25,550	14,257	\$106.99	\$1,525,314	\$59.70
2019	59.6%	25,550	15,228	\$109.13	\$1,661,773	\$65.04
2020	60.8%	25,550	15,534	\$111.31	\$1,729,136	\$67.68
2021	62.0%	25,550	15,841	\$113.54	\$1,798,529	\$70.39

\*Assumes 2% inflation

Table 26: Summary of Projected Revenue (High)

PROJECTED SUBJECT REVENUE						
Year	Subject Occupancy	Available Room Nights	Occupied Rooms	ADR*	Room Revenue	RevPAR
2017	52.1%	25,550	13,312	\$98.62	\$1,312,785	\$51.38
2018	55.8%	25,550	14,257	\$100.59	\$1,434,136	\$56.13
2019	59.6%	25,550	15,228	\$102.60	\$1,562,437	\$61.15
2020	60.8%	25,550	15,534	\$104.66	\$1,625,773	\$63.63
2021	62.0%	25,550	15,841	\$106.75	\$1,691,018	\$66.18

\*Assumes 2% inflation

Table 27: Summary of Projected Revenue (Low)

### Projected Conference Center Demand, Revenue and Expenses

There are a number of conference facilities in the primary and secondary markets. In Delta, approximately 2,000 square feet of meeting space is available at the Bill Heddles Recreation Center; however, there are no conference centers that would directly compete with the Project. Montrose has a conference center attached to the Holiday Inn Express with approximately 6,000 square feet of meeting space.

Based on interviews with facility managers, these spaces average between 40%-60% occupancy. This occupancy is highly variable throughout the week, with weekends seeing excess demand. This analysis assumes the project can achieve 50% occupancy at a lease rate of \$0.15 per square foot per day. This is the average lease rate for the area. 50% occupancy is deemed achievable based on the excess demand in the region at peak

times and the unique space the conference center will fill in the Delta market.

The table below illustrates the projected revenues and expenses for the Center. Based upon the assumptions above, the revenues for the conference center are expected to be \$292,000 per year and the expenses are estimated to be \$292,268 per year making the Center a break-even proposal. The benefit of such a center is both added room nights for the hotel, which will help it to achieve the projected 100%-110% of fair market share. Additionally, the Center is an asset to the community providing a space that can be used for conferences, events, and other gatherings.

CONFERENCE CENTER REVENUES AND EXPENSES		
<b>Conference Center Revenue</b>		
Meeting Space Rentals	SF/Yr	547,500
Attendees	1 per 30 SF	18,250
Meeting Space Revenue	\$0.15per SF per Day	\$82,125
Food and Beverage Revenue	\$10 per Attendee	\$182,500
Event Services Revenue	\$0.05 per SF	\$27,375
<b>Total Revenue</b>		<b>\$292,000</b>
<b>Operating Expenses</b>		
Payroll	1 employee 50K	\$50,000
Benefits	25% of payroll	\$12,500
Food and Bev COGS	75% of food sales	\$136,875
Event Service Costs	90% of event rev	\$24,638
Admin and General	3% of Operating Revenue	\$8,760
Marketing and Sales	3% of Operating Revenue	\$8,760
Repair and Maintenance	5% of Operating Revenue	\$14,600
Supplies and Equipment	3% of Operating Revenue	\$8,760
Utilities	.05/sf	\$27,375
<b>Total Expenses</b>		<b>\$292,268</b>
<b>Net Conference Center Income</b>		<b>(\$268)</b>

Table 28: Conference Center Revenues and Expenses

## Project Expenses and Return

### Construction Costs

As shown in Table 29 and Table 30, estimated construction costs for the project range from \$8.9M to \$9.2M depending upon whether the conference center is incorporated into the hotel or is detached. This includes an estimated land price of \$125,000 per acre based upon comparable current listings and assessed values, estimated hotel construction costs of \$70,000 per room. The increased conference center costs for a de-

tached building stem from duplicative mechanical systems needed, an additional 1,000 SF for lobby space, and an additional 0.5 acres of land to accommodate the building. The estimated conference center construction costs are \$195 per square foot for the incorporated center and \$205 for the detached model, and are based upon comparable hotel developments.

CONSTRUCTION COSTS			
	Unit Price	Unit	Total
<i>Rooms</i>			<i>70</i>
Land Cost	\$125,000	per acre	\$312,500
Construction Cost	\$70,000	per room	\$4,900,000
FF&E	\$16,000	per room	\$1,120,000
Developers Fee			\$350,000
Other Soft Costs			\$1,200,000
Conference Center	\$195	per SF (3,000 SF)	\$585,000
Contingency	5%	% of Construction Costs	\$407,750
<b>Total</b>			<b>\$8,875,250</b>

Table 29: Construction Costs (Conference Center Incorporated)

CONSTRUCTION COSTS			
	Unit Price	Unit	Total
<i>Rooms</i>			<i>70</i>
Land Cost	\$125,000	per acre	\$375,000
Construction Cost	\$70,000	per room	\$4,900,000
FF&E	\$16,000	per room	\$1,120,000
Developers Fee			\$350,000
Other Soft Costs			\$1,200,000
Conference Center	\$205	per SF (4,000 SF)	\$820,000
Contingency	5%	% of Construction Costs	\$419,500
<b>Total</b>			<b>\$9,184,500</b>

Table 30: Construction Costs (Conference Center Detached)

Table 31 and Table 32 below depict the sources of funds for this project. It is anticipated that financing for this project would be provided by a combination of equity contribution, SBA debt and conventional debt. Equity requirements for such projects are typically 35%, yielding necessary investment between \$3.1M and \$3.2M. The remaining would be split equally between SBA and bank loans. Assuming a 5.5% interest rate over 20 years would result in a debt service payment between \$482,739 and \$499,559 per year.

CAPITAL STACK	
<b>Total Cost</b>	<b>\$8,875,250</b>
<i>Equity Requirement</i>	<i>35%</i>
Equity	\$3,106,338
SBA Debt	\$2,884,456
Bank Debt	\$2,884,456

Table 31: Capital Stack (Incorporated)

CAPITAL STACK	
<b>Total Cost</b>	<b>\$9,184,500</b>
<i>Equity Requirement</i>	<i>35%</i>
Equity	\$3,214,575
SBA Debt	\$2,984,963
Bank Debt	\$2,984,963

Table 32: Capital Stack (Detached)

## Operating Budget

Revenues and expenses for the project are illustrated in Table 33 and Table 34 below. These tables outline several different scenarios including high and low estimated ADR as determined above in scenarios with both an incorporated and detached conference center. Based upon the occupancy and ADR assumptions established earlier in this report, it is anticipated that the hotel would see revenues between \$1.6M and \$1.7M in its first year, increasing annually thereafter to between \$2.2M and \$2.3M in year 5. Operating expenses for the hotel are expected to be between \$1.5M and \$1.6M over this period yielding an operating profit. This profit is enough to cover debt service expenses in all but year 1 in the best case scenario and all but year 2 in the other scenarios. Although positive, the return on investment for this project is not enough to cover typical hotel developers' cost of capital, which can range from 10% to 20%. In order to attract a typical developer to this project, incentives will be required. As the conference center provides public benefits to the region, it is the portion of the project that should be the target of these incentives.

REVENUES AND EXPENSES					
	Year 1	Year 2	Year 3	Year 4	Year 5
Total available rooms	25,550	25,550	25,550	25,550	25,550
Occupancy	52.10%	55.80%	59.60%	60.80%	62.00%
Average daily rate	\$105	\$107	\$109	\$111	\$114
<b>Revenues</b>					
Total Room Revenues	\$1,396,248	\$1,525,314	\$1,661,773	\$1,729,136	\$1,798,529
Conference Center Revenues	\$292,000	\$438,000	\$446,760	\$455,695	\$464,809
Other Revenues	\$38,000	\$38,760	\$39,535	\$40,326	\$41,132
<b>Gross Revenue</b>	<b>\$1,726,248</b>	<b>\$2,002,074</b>	<b>\$2,148,068</b>	<b>\$2,225,157</b>	<b>\$2,304,470</b>
<b>Operating Expenses</b>					
<i>Departmental Costs &amp; Expenses</i>					
Personnel	\$400,000	\$408,000	\$416,160	\$424,483	\$432,973
Other Expenses	\$12,000	\$12,240	\$12,485	\$12,734	\$12,989
Conference Center Expenses	\$292,268	\$298,113	\$304,075	\$310,157	\$316,360
<i>Total Departmental Expenses</i>	<i>\$704,268</i>	<i>\$718,353</i>	<i>\$732,720</i>	<i>\$747,374</i>	<i>\$762,322</i>
<i>General Operating Expenses</i>					
Administration & General	\$185,000	\$188,700	\$192,474	\$196,323	\$200,250
Franchise Fee	\$125,662	\$128,176	\$130,739	\$133,354	\$136,021
Marketing	\$34,906	\$35,604	\$36,316	\$37,043	\$37,784
Utilities	\$75,000	\$76,500	\$78,030	\$79,591	\$81,182
Property Oper. & Maint.	\$85,000	\$86,700	\$88,434	\$90,203	\$92,007
<i>Total General Operating Expenses</i>	<i>\$505,569</i>	<i>\$515,680</i>	<i>\$525,994</i>	<i>\$536,513</i>	<i>\$547,244</i>
<i>Fixed Charges &amp; Management</i>					
Management Fee	\$51,787	\$60,062	\$64,442	\$66,755	\$69,134
Property Taxes (Incorporated)	\$145,339	\$148,246	\$151,211	\$154,235	\$157,319
Property Taxes (Detached)	\$149,527	\$152,518	\$155,568	\$158,679	\$161,853
Property Insurance	\$15,000	\$15,300	\$15,606	\$15,918	\$16,236
<i>Total Fixed Charges (Incorporated)</i>	<i>\$212,126</i>	<i>\$223,608</i>	<i>\$231,259</i>	<i>\$236,908</i>	<i>\$242,690</i>
<i>Total Fixed Charges (Detached)</i>	<i>\$216,315</i>	<i>\$227,880</i>	<i>\$235,616</i>	<i>\$241,352</i>	<i>\$247,224</i>
<i>Reserve for Replacement/Depreciation</i>	<i>\$50,000</i>	<i>\$51,000</i>	<i>\$52,020</i>	<i>\$53,060</i>	<i>\$54,122</i>
<b>Total Operating Expenses (Incorporated)</b>	<b>\$1,471,962</b>	<b>\$1,508,641</b>	<b>\$1,541,992</b>	<b>\$1,573,856</b>	<b>\$1,606,377</b>
<b>Total Operating Expenses (Detached)</b>	<b>\$1,476,151</b>	<b>\$1,512,913</b>	<b>\$1,546,349</b>	<b>\$1,578,300</b>	<b>\$1,610,911</b>
<b>Net Operating Income (Incorporated)</b>	<b>\$254,286</b>	<b>\$493,434</b>	<b>\$606,076</b>	<b>\$651,301</b>	<b>\$698,093</b>
<b>Net Operating Income (Detached)</b>	<b>\$250,098</b>	<b>\$489,162</b>	<b>\$601,718</b>	<b>\$646,857</b>	<b>\$693,560</b>
Debt Service (Incorporated)	\$482,739	\$482,739	\$482,739	\$482,739	\$482,739
Debt Service (Detached)	\$499,559	\$499,559	\$499,559	\$499,559	\$499,559
<b>Net Cash Flow (Incorporated)</b>	<b>(\$228,453)</b>	<b>\$10,695</b>	<b>\$123,337</b>	<b>\$168,562</b>	<b>\$215,354</b>
<b>Net Cash Flow (Detached)</b>	<b>(\$249,461)</b>	<b>(\$6,126)</b>	<b>\$106,516</b>	<b>\$151,742</b>	<b>\$198,534</b>
Return on Investment	-7.35%	0.34%	3.97%	5.43%	6.93%
Return on Investment	-7.76%	-0.19%	3.31%	4.72%	6.18%

Table 33: Project Pro-Forma (High)

REVENUES AND EXPENSES					
	Year 1	Year 2	Year 3	Year 4	Year 5
Total available rooms	25,550	25,550	25,550	25,550	25,550
Occupancy	52.10%	55.80%	59.60%	60.80%	62.00%
Average daily rate	\$99	\$101	\$103	\$105	\$107
<b>Revenues</b>					
Total Room Revenues	\$1,312,785	\$1,434,136	\$1,562,437	\$1,625,773	\$1,691,018
Conference Center Revenues	\$292,000	\$438,000	\$446,760	\$455,695	\$464,809
Other Revenues	\$38,000	\$38,760	\$39,535	\$40,326	\$41,132
<b>Gross Revenue</b>	<b>\$1,642,785</b>	<b>\$1,910,896</b>	<b>\$2,048,732</b>	<b>\$2,121,794</b>	<b>\$2,196,960</b>
<b>Operating Expenses</b>					
<i>Departmental Costs &amp; Expenses</i>					
Personnel	\$400,000	\$408,000	\$416,160	\$424,483	\$432,973
Other Expenses	\$12,000	\$12,240	\$12,485	\$12,734	\$12,989
Conference Center Expenses	\$292,268	\$298,113	\$304,075	\$310,157	\$316,360
<i>Total Departmental Expenses</i>	<i>\$704,268</i>	<i>\$718,353</i>	<i>\$732,720</i>	<i>\$747,374</i>	<i>\$762,322</i>
<i>General Operating Expenses</i>					
Administration & General	\$185,000	\$188,700	\$192,474	\$196,323	\$200,250
Franchise Fee	\$118,151	\$120,514	\$122,924	\$125,382	\$127,890
Marketing	\$32,820	\$33,476	\$34,146	\$34,828	\$35,525
Utilities	\$75,000	\$76,500	\$78,030	\$79,591	\$81,182
Property Oper. & Maint.	\$85,000	\$86,700	\$88,434	\$90,203	\$92,007
<i>Total General Operating Expenses</i>	<i>\$495,970</i>	<i>\$505,890</i>	<i>\$516,007</i>	<i>\$526,328</i>	<i>\$536,854</i>
<i>Fixed Charges &amp; Management</i>					
Management Fee	\$49,284	\$57,327	\$61,462	\$63,654	\$65,909
Property Taxes (Incorporated)	\$145,339	\$148,246	\$151,211	\$154,235	\$157,319
Property Taxes (Detached)	\$149,527	\$152,518	\$155,568	\$158,679	\$161,853
Property Insurance	\$15,000	\$15,300	\$15,606	\$15,918	\$16,236
<i>Total Fixed Charges (Incorporated)</i>	<i>\$209,622</i>	<i>\$220,873</i>	<i>\$228,279</i>	<i>\$233,807</i>	<i>\$239,465</i>
<i>Total Fixed Charges (Detached)</i>	<i>\$213,811</i>	<i>\$225,144</i>	<i>\$232,636</i>	<i>\$238,251</i>	<i>\$243,998</i>
<i>Reserve for Replacement/Depreciation</i>	<i>\$50,000</i>	<i>\$51,000</i>	<i>\$52,020</i>	<i>\$53,060</i>	<i>\$54,122</i>
<b>Total Operating Expenses (Incorporated)</b>	<b>\$1,459,860</b>	<b>\$1,496,115</b>	<b>\$1,529,026</b>	<b>\$1,560,569</b>	<b>\$1,592,762</b>
<b>Total Operating Expenses (Detached)</b>	<b>\$1,464,048</b>	<b>\$1,500,387</b>	<b>\$1,533,383</b>	<b>\$1,565,014</b>	<b>\$1,597,296</b>
<b>Net Operating Income (Incorporated)</b>	<b>\$182,925</b>	<b>\$414,781</b>	<b>\$519,706</b>	<b>\$561,225</b>	<b>\$604,197</b>
<b>Net Operating Income (Detached)</b>	<b>\$178,737</b>	<b>\$410,509</b>	<b>\$515,349</b>	<b>\$556,781</b>	<b>\$599,664</b>
Debt Service (Incorporated)	\$482,739	\$482,739	\$482,739	\$482,739	\$482,739
Debt Service (Detached)	\$499,559	\$499,559	\$499,559	\$499,559	\$499,559
<b>Net Cash Flow (Incorporated)</b>	<b>(\$299,814)</b>	<b>(\$67,958)</b>	<b>\$36,967</b>	<b>\$78,487</b>	<b>\$121,459</b>
<b>Net Cash Flow (Detached)</b>	<b>(\$320,823)</b>	<b>(\$84,779)</b>	<b>\$20,147</b>	<b>\$61,666</b>	<b>\$104,638</b>
Return on Investment	-9.65%	-2.19%	1.19%	2.53%	3.91%
Return on Investment	-9.98%	-2.64%	0.63%	1.92%	3.26%

Table 34: Project Pro-Forma (Low)

Table 35 and Table 36 below show the potential property and sales tax increment available for a project such as this. The development is expected to generate over \$120,000 in additional property taxes and between \$80,000 and \$84,500 in sales tax beyond what the site generates today. If the new tax revenues that would not exist but for the project were put back into the project to fund the conference center capital costs, which range from \$830,752 for an incorporated center to \$1,202,959

for a detached center, it would achieve a return on investment between 8.57% and 12.15% by year 5. To achieve this rate of return, only 31.4% of the available sales tax increment is required, and the rest would continue to go to the County and City. The incentivized level of return is much more likely to entice a developer to take on the significant risk of developing a new hotel and conference center in Delta.

INCENTIVIZED RETURN					
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Tax Increment</b>					
Project Property Tax (Incorporated)	\$145,339	\$148,246	\$151,211	\$154,235	\$157,319
Project Property Tax (Detached)	\$149,527	\$152,518	\$155,568	\$158,679	\$161,853
Current Property Tax	\$22,215	\$22,659	\$23,112	\$23,575	\$24,046
<b>Total Tax Increment (Incorporated)</b>	<b>\$123,124</b>	<b>\$125,586</b>	<b>\$128,098</b>	<b>\$130,660</b>	<b>\$133,273</b>
<b>Total Tax Increment (Detached)</b>	<b>\$127,312</b>	<b>\$129,858</b>	<b>\$132,455</b>	<b>\$135,105</b>	<b>\$137,807</b>
Sales Tax Increment (31.4% of total)	\$26,529	\$27,060	\$27,601	\$28,153	\$28,716
<b>Potential Incentive (Incorporated)</b>	<b>\$149,653</b>	<b>\$152,646</b>	<b>\$155,699</b>	<b>\$158,813</b>	<b>\$161,989</b>
<b>Potential Incentive (Detached)</b>	<b>\$153,841</b>	<b>\$156,918</b>	<b>\$160,056</b>	<b>\$163,257</b>	<b>\$166,523</b>
Net Cash Flow (Incorporated)	(\$228,453)	\$10,695	\$123,337	\$168,562	\$215,354
Net Cash Flow (Detached)	(\$249,461)	(\$6,126)	\$106,516	\$151,742	\$198,534
<b>Incentivized Cash Flow (Incorporated)</b>	<b>(\$78,800)</b>	<b>\$163,341</b>	<b>\$279,036</b>	<b>\$327,375</b>	<b>\$377,343</b>
<b>Incentivized Cash Flow (Detached)</b>	<b>(\$95,620)</b>	<b>\$150,792</b>	<b>\$266,573</b>	<b>\$314,999</b>	<b>\$365,056</b>
Return on Investment (Incorporated)	-2.54%	5.26%	8.98%	10.54%	12.15%
Return on Investment (Detached)	-2.97%	4.69%	8.29%	9.80%	11.36%

Table 35: Incentivized Return (High)

INCENTIVIZED RETURN					
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Tax Increment</b>					
Project Property Tax (Incorporated)	\$145,339	\$148,246	\$151,211	\$154,235	\$157,319
Project Property Tax (Detached)	\$149,527	\$152,518	\$155,568	\$158,679	\$161,853
Current Property Tax	\$22,215	\$22,659	\$23,112	\$23,575	\$24,046
<b>Total Tax Increment (Incorporated)</b>	<b>\$123,124</b>	<b>\$125,586</b>	<b>\$128,098</b>	<b>\$130,660</b>	<b>\$133,273</b>
<b>Total Tax Increment (Detached)</b>	<b>\$127,312</b>	<b>\$129,858</b>	<b>\$132,455</b>	<b>\$135,105</b>	<b>\$137,807</b>
Sales Tax Increment (31.4% of total)	\$25,297	\$25,803	\$26,319	\$26,845	\$27,382
<b>Potential Incentive (Incorporated)</b>	<b>\$148,421</b>	<b>\$151,389</b>	<b>\$154,417</b>	<b>\$157,505</b>	<b>\$160,655</b>
<b>Potential Incentive (Detached)</b>	<b>\$152,609</b>	<b>\$155,661</b>	<b>\$158,774</b>	<b>\$161,950</b>	<b>\$165,189</b>
Net Cash Flow (Incorporated)	(\$295,489)	(\$63,191)	\$42,202	\$83,946	\$127,149
Net Cash Flow (Detached)	(\$316,498)	(\$80,012)	\$25,381	\$67,125	\$110,329
<b>Incentivized Cash Flow (Incorporated)</b>	<b>(\$147,068)</b>	<b>\$88,198</b>	<b>\$196,619</b>	<b>\$241,451</b>	<b>\$287,805</b>
<b>Incentivized Cash Flow (Detached)</b>	<b>(\$163,889)</b>	<b>\$75,649</b>	<b>\$184,156</b>	<b>\$229,075</b>	<b>\$275,518</b>
Return on Investment (Incorporated)	-4.73%	2.84%	6.33%	7.77%	9.27%
Return on Investment (Detached)	-5.10%	2.35%	5.73%	7.13%	8.57%

Table 36: Incentivized Return (Low)

## Conclusion

The purpose of this report is to conduct a preliminary market study regarding the development of a proposed national chain hotel property. The primary objective is to determine the feasibility of the project for making investment and development decisions.

There is substantial latent and unsatisfied demand in the Delta market that a nationally branded upper-mid tier hotel could take advantage of. Such a development would likely outperform other hotels in the area. Based upon the forecasted revenue and expenses, the consultants are of the opinion that the proposed national chain hotel property is feasible provided

that the development of the conference center is incentivized for a period. This conclusion is based upon typical loan to value ratios, costs of construction of limited service mid-range to upper mid-range lodging properties in and around Delta County, and present market interest rates and assumes competent and able management.